



australianethical

SUSTAINABILITY REPORT
2019

Here for
good

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An underwater photograph of a vibrant coral reef. The foreground is dominated by large, branching red coral structures. The water is clear and blue, with many small, colorful fish swimming around. The background shows more coral and the surface of the water with light reflections.

We're here for good.

Since 1986 we have been doing business according to the principles set out in our *Australian Ethical Charter*.

In 2019 we continued to be guided by the founding principles of our company, where the good of the planet, people and animals is at the heart of everything we do. We advance the good through our investments, our advocacy and the work of our Foundation which catalyses charitable and social enterprise impact.

Year in review



Steve Gibbs
Acting CEO



Michael Monaghan
Acting Chair

We're here for good. Our unique combination of ethical assessment and professional investment management continues to deliver for all our stakeholders and for the planet. In this our 34th year of operation, we continued to be guided by the founding principles of our company which place the good of the planet, people and animals at the heart of everything we do. In FY19, we steadfastly kept faith with our principles and delivered returns that featured in performance charts across the industry.

In FY19, our managed fund investors enjoyed above-benchmark annual performance for all bar one of our funds. Members in our super fund also benefited, with the Growth option ranked number one by SuperRatings for one-year performance, the MySuper (Balanced Accumulation) option ranked second over one year and the Australian Shares option ranked the strongest performer over both five and seven years.¹

Good money

Growing the pool of good money has always been a key part of our mantra. The more money directed towards ethical investing, the better for all.

In February 2019, we reached a significant milestone, surpassing \$3 billion in funds under management (FUM). By the end of FY19, FUM was \$3.42 billion. This increase was driven by growth in member numbers, positive net flows and strong investment performance.

Royal Commissions into the behaviour of Australian institutions, globally coordinated strikes against inaction on climate change and debate over the need for a Federal Independent Commission Against Corruption (ICAC) demonstrate that concerns regarding ethical conduct and environmental impact are escalating. Through our long history of thought leadership and demonstrated investment performance, Australian Ethical continues to lead in socially responsible investing at a time when ethical investment momentum exponentially grows.² We have seen strong competition in the responsible investing segment, however our continued growth validates that Australian Ethical has clearly differentiated itself as a genuine deep green option, appealing to an increasingly aware investor audience.

We know our customers enjoy their experience with us. Our super fund remains one of the fastest-growing



funds in Australia³ enjoying a 4% increase in overall membership and an 11% increase in funded members in FY19. This despite 60% of all super funds across the industry seeing their net membership shrink, rather than growing throughout the year³.

Our customer engagement scores are among the highest in the industry⁴ and are backed up by our impressive retention rates. Our net super outflow ratio continues to be the lowest across all retail funds in the industry.³

In FY19, our growing scale enabled us to pass on the benefits to investors through reduced fees for a number of our managed funds as well as reductions in wholesale thresholds. These reductions were automatically applied to the accounts of all eligible existing and new investors.

Not only did we deliver a great experience for our customers in FY19, but the key needs of our other important stakeholders were also addressed. We maintained our top quartile employee satisfaction rating⁵ and increased the diversity of our workforce (see page 45). Our shareholders enjoyed sustained value with total shareholder return (TSR) of 34% and we allocated more than \$900,000 to impact initiatives and community organisations aligned to our purpose (see page 13).

Sustainability reporting

In FY19, we continued to rigorously measure, deliver and report on our sustainable relationship with the planet. We were among the first and remain one of the very few fund managers in Australia that report annually on our environmental, social and governance related impacts according to the Global Reporting Initiative (GRI) Standards. We have been reporting to the GRI since 2002.

In FY19, we focused on a number of key issues of concern to our stakeholders. Through our ethics team, our advocacy and our social media reach we actively participated in the ‘Kids Off Nauru’ campaign. As we stated at the rally in Canberra in late October 2018, “Business can’t hide behind government to escape responsibility for human rights breaches”. It was great to have confirmation the following February that all children had been removed.

We also examined the complex interconnectivity between food production and climate. Food is something we all need to survive, but how can we manage this need in a more sustainable way? This is relevant to us as humans, but also as investment managers who need to

understand the risks and benefits of our investments. What can we do to help encourage this industry move in a better direction?

Social media engagement is also of great relevance to us. We invest in social media platforms such as Facebook, and as a business we use social media as a dynamic two-way communication medium with our members and the wider community. While social media can be a powerful tool, there have been events in 2018 and 2019 that led us to examine and re-examine the appropriateness of our investments. Our consideration of the merits and drawbacks of social media are set out on page 22.

Responding to climate change remains the overarching ethical consideration that guides our investments, business practices and philanthropic endeavours. In 2015, we committed to achieving net zero emissions for our business by 2050. The good news is that we have already achieved net zero for our operational Scope 1, 2 and 3 emissions, while our growing portfolio continues its downward trajectory of carbon emissions exposure and our investment in renewables remains proportionally six times that of the market. Please turn to page 28 for more.

1. SuperRatings SR50 Growth (70-90) Index FY19; SuperRatings SR50 MySuper Index FY19 and SuperRatings SR50 Australian Shares Index FY19
2. Responsible Investment Benchmark Report 2019, RIAA
3. KPMG Super Insights Report 2019. Published 15 April 2019 (Source: APRA Annual Fund level Superannuation Statistics June 2018)
4. Australian Ethical Brand Research, Pollinate March 2019
5. AON Hewitt Best Employers 2019

Individual impact

We believe every individual can make a difference to their own carbon intensity. To assist with this journey we have published a range of content to help consumers make better choices, as well as created a lifestyle carbon footprint calculator using actual Australian data.

Challenges

The ethical investment marketplace is becoming increasingly crowded as more providers take advantage of emerging 'green opportunities' to meet demand. In response, Australian Ethical continues to focus on what we see as our unique point of difference: our proven ethical conviction and

professional approach to managing money which is delivering strong investment outcomes alongside benefiting the planet, people and animals.

Looking forward, Australian Ethical remains committed to enhancing the customer experience to pave the way for the next phase of growth. Australian Ethical has begun working on its new digital platform which will be a key focus in FY20, with rollout occurring incrementally, and will continue to invest in brand awareness and extending customer reach. We are also developing our products and accessibility to ensure our customers can reach us through their channel of choice.

This will position Australian Ethical to build on the strong 2019 result which will allow us to deliver better products and service to our customers, provide greater returns to our shareholders and have greater social and environmental impact.

This year we have delivered substantial outcomes for our customers, shareholders, employees, and most importantly for the planet. We hope you enjoy reading the 2019 Australian Ethical Sustainability Report.



Steve Gibbs



Michael Monaghan

FAREWELL

On 26 June 2019, Phil Vernon announced that after nine years with Australian Ethical he would step down from his role as Managing Director and CEO.

On behalf of the Board, management and staff, I wish to extend my sincere thanks and gratitude to Phil for his significant contribution to Australian Ethical. He has led the organisation through a period of unparalleled growth and success over the past decade.

Under his leadership, funds under management have increased from \$600 million to over \$3.4 billion. The market capitalisation of the company has grown from \$20 million to \$200 million, while the

super fund has regularly ranked among the fastest growing in the country. Under Phil's stewardship Australian Ethical has forged an enviable reputation as one of Australia's leading purpose-driven organisations. In 2014, we were the first Australian publicly-listed company to be certified as a B Corporation and have continued to rank as a 'Best For The World' Governance: honoree ever since. The success of the business has also allowed the Australia Ethical

Foundation to provide an ever-growing pool of funding to not-for profit organisations aligned to our ethos.

Phil's contribution to the success of Australian Ethical has been enormous and it is only fitting that I use this opportunity to offer a sincere and heartfelt thank you to Phil, on behalf of all of us at Australian Ethical.

Steve Gibbs
Acting CEO

Here for good

For more than 33 years we have been true to our Ethical Charter. Our employees, our customers and our shareholders choose us because:

We have ZERO investments in FOSSIL FUEL companies¹

We are TOBACCO FREE

We are NUCLEAR WEAPONS FREE

WE DO invest in sustainable, future-building businesses

WE PRIDE ourselves on our ethical business practices

WE ACTIVELY ENGAGE with businesses to advocate for positive change

WE OFFER a comprehensive range of investment options catering to all risk appetites

WE DONATE 10% of our annual profits² to the Australian Ethical Foundation

1. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). (Assured by KPMG).

2. After tax and before bonuses

Year in review

\$3.42 billion

IN FUNDS UNDER MANAGEMENT



\$41 million
REVENUE

\$6.5 million
PROFIT AFTER TAX

41.5%
RETURN ON EQUITY*

6 cents
BASIC EARNINGS PER SHARE¹

43,000+ SUPER MEMBERS

No.1
SUPER GROWTH OPTION FY19²

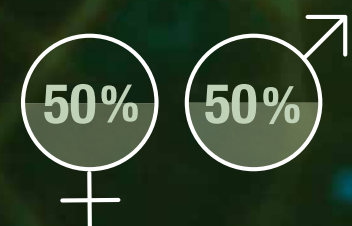
11% INCREASE IN FUNDED MEMBERS

No.1
FASTEST GROWING SUPER FUND
in Australia over the last 5 years by number of members³



Equality in leadership

BOARD COMPOSITION



INVESTMENTS PRODUCED

70% less CO₂



THAN BENCHMARK⁴



Nil INVESTMENT IN
FOSSIL FUEL COMPANIES⁵



Nil INVESTMENT
IN NUCLEAR



Nil INVESTMENT
IN TOBACCO⁶

6 times more



INVESTMENT IN RENEWABLE POWER
GENERATION THAN THE GLOBAL SHARE MARKET⁷

\$937,000



PROVISIONED FOR
COMMUNITY IMPACT IN FY20



Best for the World

STATUS BY B CORP⁸

+ 62 NPS

FOR OUR SUPER FUND⁹

+ 54 NPS

FOR OUR MANAGED FUNDS⁹



+ 71%

EMPLOYEE
ENGAGEMENT¹⁰

1. A 100 to 1 share split occurred in the period. 2. SuperRatings SR50 Growth (70-90) Index FY19, superratings.com.au/superratings-top-10. 3. KPMG Super Insights Report 2019. Published 15 April 2019. 4. Emissions of Australian Ethical share investments compared to benchmark of S&P ASX 200 Index (for Australian shareholdings) and MSCI World ex Australia Index (for international shareholdings). Calculated as at 31 December 2018. 5. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). (Assured by KPMG.) 6. We have never invested in tobacco and support Tobacco Free Portfolios. 7. Proportion of our share investments in renewable power generation compared to the global share market. 8. B Corp's 'Best for the World Honouree' Governance 2019. 9. Australian Ethical Brand Research, Pollinate, March 2019. 10. Aon Hewitt Best Employers 2019.

* Attributable to shareholders.

Sustainability reporting

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. Importantly our standalone [Taskforce on Climate-Related Financial Disclosures Report](#) is also summarised in this report. On [pages 28-37](#) we focus on our progress towards a net zero emissions portfolio, and our alignment to the global Sustainability Development Goals. We have chosen these reporting criteria as they align with our commitment to transparently report how we conduct our business and allow us to incorporate current, emerging and future sustainability issues into our business model.



The standards we report to in our GRI Index are determined by our materiality matrix.

Material topics

Our top 15 material topics are shown on the materiality matrix ([page 11](#)) and have been mapped to the GRI Standards to provide the framework for this report. The GRI Content Index can be used to review this information.

Material topics are those that have been identified by our key stakeholders as the most important for our ongoing and sustainable success. They complement the financial reporting in our [annual report](#).

In FY18, we conducted a robust assessment process to help us determine our material topics. We engaged stakeholders through: member and investor research¹;

an employee materiality survey (many employees are also shareholders); and a review by Directors. We then integrated these insights with feedback gathered from other key stakeholder groups including our customers, our shareholders and our social media community.

As there has been no significant change to our business model or to the environment in which we operate, we will again report to the material topics identified in our FY18 materiality assessment.

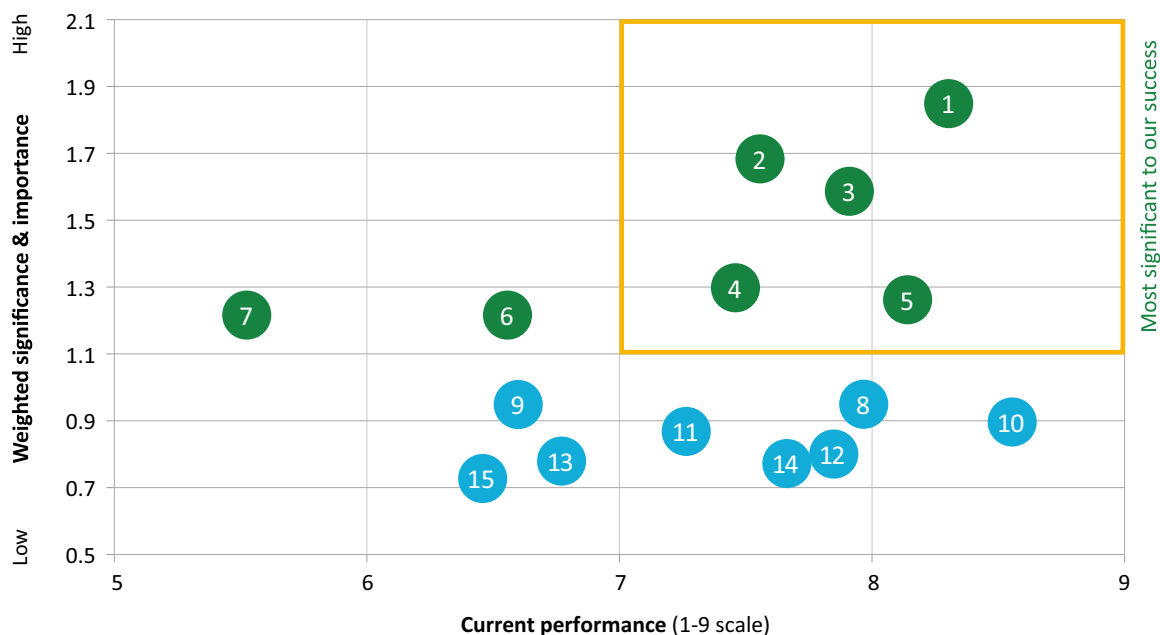
These are set out on the matrix in the following page.

1. Australian Ethical Brand Research, Pollinate March 2018



Most significant and important topics vs performance

 2019 top five topics ● Weighted significance & importance of more than 1.1



2019 topics — numbered in order of importance

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Screening of investments 2. Assessment of environmental & social risk 3. Engagement with investee companies 4. Active ownership 5. Ethics & integrity 6. Staff training on Australian Ethical products & services 7. Transparency of investment portfolio | <ol style="list-style-type: none"> 8. Compliance 9. Auditing investments 10. Anti-corruption 11. Economic performance 12. Credibility of investment team 13. Stakeholder engagement 14. Values & culture 15. Customer service |
|--|---|



Three-year scorecard

As our scorecard on the next page demonstrates, we are tracking well on growth in good money and on our governance measures. We were pleased to again score in the top 10% of all B Corps across the globe and be named a B Corp Best For The World: Governance honoree in recognition of our exemplary governance practices.

How we measure our progress

- Growth in good money measured by funds under management and growth in super members
- Good governance of our business measured by sustainable profit and total shareholder return
- Progress towards a net zero emissions investment portfolio by 2050 measured by our CO₂ emissions versus the benchmark¹ and our proportional investing in renewables to support the transition to a 1.5 degree scenario²
- Alignment of our sustainability impact to the global Sustainable Development Goals
- Tracking of companies engaged with and outcomes of advocacy
- Growth in funding provided for community impact
- Stakeholder satisfaction measured by the annual employee engagement survey and annual Net Promoter Surveys (customer engagement) conducted for members and investors

We must maintain...

Zero investment in fossil fuel companies³

Zero investment in nuclear

Zero investment in weapons





The carbon intensity of our portfolio continues to decrease and is now 70% less than benchmark, while our proportional investment in renewable energy remains six times greater than the global share market.

We track, mitigate and offset 100% of our operational Scope 1, 2 and 3 emissions by purchasing credits from the Kariba REDD+ project. The project helps farmers in Zimbabwe sustainably increase their productivity to prevent further land clearing.

The trend column uses green to signal improving metrics, amber for no change or slight negative movement and red for a significant negative trend. Though most metrics are green or amber, our Scope 3 emissions trended red in FY19.

Metric		FY17	FY18	FY19	Trend
Growth in good money	Total FUM	\$2.145 bn (+38%)	\$2.82 bn (+31%)	\$3.42 bn (+21%)	●
	Super members (funded) ⁴	32,159 (+32%)	36,482 (+13%)	40,530 (+11%)	●
Good governance	Profit after tax	\$2.9m	\$5.0m	\$6.5m	●
	Share price	\$94.60	\$135.00	\$177 (\$177) ⁶	●
	Total shareholder return (TSR)	19%	47%	34%	●
	2019 B Corp 'Best For The World: Governance honoree	Achieved	Achieved	Achieved	●
Net zero emissions by 2050 ⁵	Operational Scope 1 & 2 emissions (per employee)	0.84 (49)	0.86 (58)	0.77 (65)	●
	Operational Scope 3 emissions	36.6	36.5	54.69	●
	Offsetting of operational Scope 1, 2 & 3 emissions	100%	100%	100%	●
	Carbon intensity of share investments compared to benchmark ¹	66% less	66% less	70% less	●
	Proportion of our share investments in renewable power generation compared to global share market	n/a	6 x	6 x	●
Sustainability impact	Alignment of share investments to the global SDGs	2.2 x benchmark ¹	3.4 x benchmark ¹	3.1 x benchmark ¹	●
Engaging for good	Companies engaged with through advocacy	More than 80	More than 300	More than 250	●
	\$ provisioned for community impact	\$280,000	\$710,000	\$937,000	●
	Social media community	110,000+	119,000+	127,500	●
Stakeholder engagement	Managed fund NPS	n/a	+48	+54	●
	Super NPS	+55	+53	+62	●
	Employee engagement	55%	78%	71%	●



1. The Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). See also page 29 for calculation details.
2. The 2015 United Nations Climate Change Conference held in Paris from 30 November to 12 December 2015 set a target to limit global temperature rise to well below two degrees Celsius and to pursue a limit of 1.5 degrees, to avert some of the most severe effects of climate change. In October 2018 the IPCC left us in no doubt about the harm that is coming our way as we move beyond today's 1°C temperature increase. Warming beyond 1.5°C increases the risk of irreversible changes, whereas the changes which keep warming under 1.5°C will deliver a more sustainable and equitable society.
3. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). (Assured by KPMG.)
4. In previous years we have reported total membership, however funded members are more representative of revenue drivers. We have thus changed reporting methodology. Prior years have been restated to reflect funded members.
5. Units are tonnes of CO₂ emissions per annum (tCO₂-e p.a.)
6. A share split of 1:100 occurred in the period.



Award-winning ethical investment products

We have been helping people invest for a **better future for more than 33 years**. We believe that the power of money can be harnessed to deliver both competitive returns and positive change for society and the environment. Our long-term investment track record, high ethical conviction and fully-featured products covering all asset classes are **unique in the market**.

In FY19, the success of our unique product offering was endorsed by a number of industry awards, ratings agencies and customer engagement scores.

Super & pension products		Managed funds	
Products offered	Australia Ethical Super & Account Based Pension	Products offered	Retail managed funds Wholesale managed funds
Investment Choice	Seven single sector and diversified ethical investment options for super Six single sector and diversified investment options for pension	Investment Choice	Eight single sector and diversified investment options
Returns	According to SuperRatings: ¹ <ul style="list-style-type: none"> • #1 Australian Shares option ranks 1st over the last year, 5 years and 7 years • #1 Growth option ranks 1st over the last year • #2 Balanced MySuper option ranks 2nd over the last year • #3 International Shares option ranks 3rd over the last year 	Returns	All funds bar one exceeded their 12-month performance benchmarks for FY19 According to CanStar, four of the top 10 returning ethical funds over one year in FY19 were Australian Ethical ³
Insurance	Above benchmark insurance offering ²	Distributions	Every six months. Can be paid as cash or reinvested.
Features	Simple online join, pension product offers flexible payment and comprehensive beneficiary options	Features	Simple online join Most funds accessible through MFunds Entry \$1,000 or \$500 with regular investment plan
Customer engagement	Net promoter score of +62 ⁴	Customer engagement	Net promoter score of +54 ⁴
Awards	Winner SuperRatings Infinity Award 2019 Winner Money Magazine Best Green Super Fund 2019 	Awards	Money Management's 2019 Fund Manager of the Year – Responsible Investments for the Australian Ethical Australian Shares Fund Financial Standard's Investment Leadership Award – ESG for the Australian Shares Fund The Diversified Shares Fund was a finalist in the category.
Ratings	SuperRatings Gold for MySuper MySuper MyChoice Pension 	Ratings	A number of our funds are rated by Lonsec.

Certifications



1. SuperRatings SR50 Growth (70-90) Index FY19; SuperRatings SR50 MySuper Index FY19 and SuperRatings SR50 Australian Shares Index FY19
2. SuperRatings Fundamentals, 30 September 2018
3. Canstar
4. Australian Ethical Brand Research, Pollinate March 2019

Further information on [Credentials](#)

Ethical investing – the heart of what we do

Our Ethical Charter is the compass we use to navigate the ethical complexities of our investment and business decisions. Our Charter requires us to grapple with the far-reaching consequences of our investment decisions and to examine issues on their merits from many angles. It governs the companies or industries we must avoid and steers us towards those that do good for the planet, people and animals.

We construct our portfolios to be well diversified and actively look for ‘future-building’ investments that will drive a sustainable economy and society while delivering returns for our investors.

In fact, we believe that incorporating ethics into our investment process helps us identify investment risks and opportunities earlier than most other funds. We have been assessing companies’ exposure to climate change risk for decades, not years. We proactively seek out technology companies that are enabling the transition to the new economy and healthcare companies that will thrive in a world where an ageing demographic is a significantly dominant force.

As verification that we do apply our Ethical Charter to every company we invest in, we invite external auditors (KPMG) to verify our process each year.

How it works

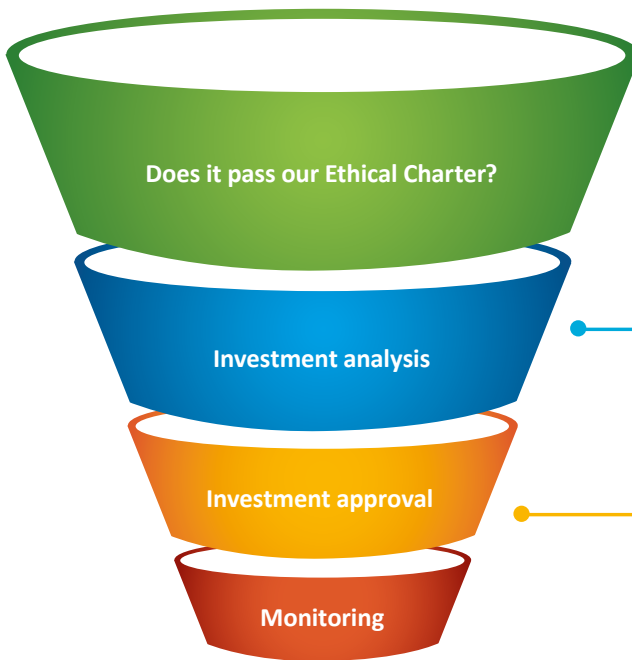
Investment ideas come from many sources: from our investment analysts scouring the markets for good investment opportunities; our portfolio managers filtering potential investments that match the portfolio criteria; or from our ethics research analysts screening the global equity market for companies that meet our ethical criteria.

Our assessment of a possible investment idea against the Charter

is neither one-dimensional nor static. If on balance we believe a business is beneficial for the long-term benefit of the planet, people or animals, then we can make the investment and apply our influence to help the business achieve that goal. On the other hand, if a business is initially assessed as aligned with our Charter, but over time makes a change that moves them out of alignment, we will attempt to influence them back to the right path or divest.

Once an investment has met the Charter, our investment team employs their significant investment expertise to make the best investment decisions for our customers.

Name	Responsibilities	Years industry experience
David Macri, CFA	CIO & Portfolio Manager (Balanced)	20
Andy Gracey	Portfolio Manager (Australian Shares & Emerging Companies)	25
Ray Gin	Portfolio Manager (Diversified and International Shares) Analyst (Financials, Industrials)	32
Tim Kelly	Portfolio Manager (Cash & Fixed Interest)	17
Mark Williams, MBA	Analyst (Utilities, REITs, Industrials)	12
Mike Murray, CFA	Analyst (Healthcare, Biotech, Health Insurance)	21
Deana Mitchell, CFA	Analyst (Technology)	19
Jason Huang	Quantitative Analyst	7
Julian Richman	Analyst	3



Our investment process

Our Ethical Charter

- Does the investment align with the 23 principles of our Ethical Charter?
- Does the investment create positive impact?
- Does it avoid causing unnecessary harm?
- Do the positives outweigh any negatives?

Investment analysis

- Investment team makes the case for portfolio inclusion
- Evaluate risk versus potential returns
- What is the impact on the overall portfolio?

Investment approval

- Chief Investment Officer approves or rejects the investment.
- If approved for a portfolio, a maximum investment limit for the portfolio is also assigned.

Continual monitoring
Should an investment cease to meet our stringent ethical or investment criteria, we will attempt to influence the company back to the right path or divest

How the Ethical Charter shapes our portfolio

The Charter's application screens out a large proportion of all possible stocks due to ethical failures. The positive screens mean our portfolio is heavily weighted towards future-building companies such as renewable energy utilities, healthcare providers and enabling technologies.

Below is a sample of companies positively selected for investment or screened out from possible investment in FY19, due to their alignment with or failure under the principles of the Australian Ethical Charter.

The year in ethical exclusions and inclusions

✘ Out

Essity AB: Excluded for involvement in testing of general consumer products using animals. (Positively Essity is taking some action to support alternatives to animal tests.)

IOOF: IOOF failed to establish governance and conflicts management arrangements which safeguard the interests of superannuation members to the satisfaction of APRA, the prudential regulator.¹

Prospra: Concerns about interest rate disclosure to borrowers. There are indications of improvement which we will monitor.

Monash IVF Group: Insufficient information about the way the company safeguards that IVF treatment is in the client's interest.

Obayashi Corp: No women on the board; penalties for price fixing; and some services to the nuclear power industry.

Pact Group: Pact makes plastic packaging which can preserve food and other products, but it was assessed to be taking insufficient action to support reuse and recycling of used packaging.

Vivendi SA: Excluded for use of captive wild animals in films. We also had concerns about the company's response to corruption charges involving its Chair.

✔ In

BuildingIQ: Positive for technologies to improve building management, including efficiency of energy and water use.

Cogstate: Contributes to research and treatment of serious cognitive illnesses including Alzheimer's, schizophrenia and depressive disorders. Cogstate's digital brain health and other cognitive assessments can be used in clinical research and clinical practice.

Mach7 Technologies: A digital platform for healthcare organisations to share, store and manage patient x-ray and other imaging data.

Orocobre and Pilbara Minerals: Lithium is mostly used for battery energy storage and other positive uses like making glass with less energy. We assessed that these two lithium mining companies are responsibly managing their social and environmental impacts.

ReadyTech: People management software for the education, training and employment sectors.

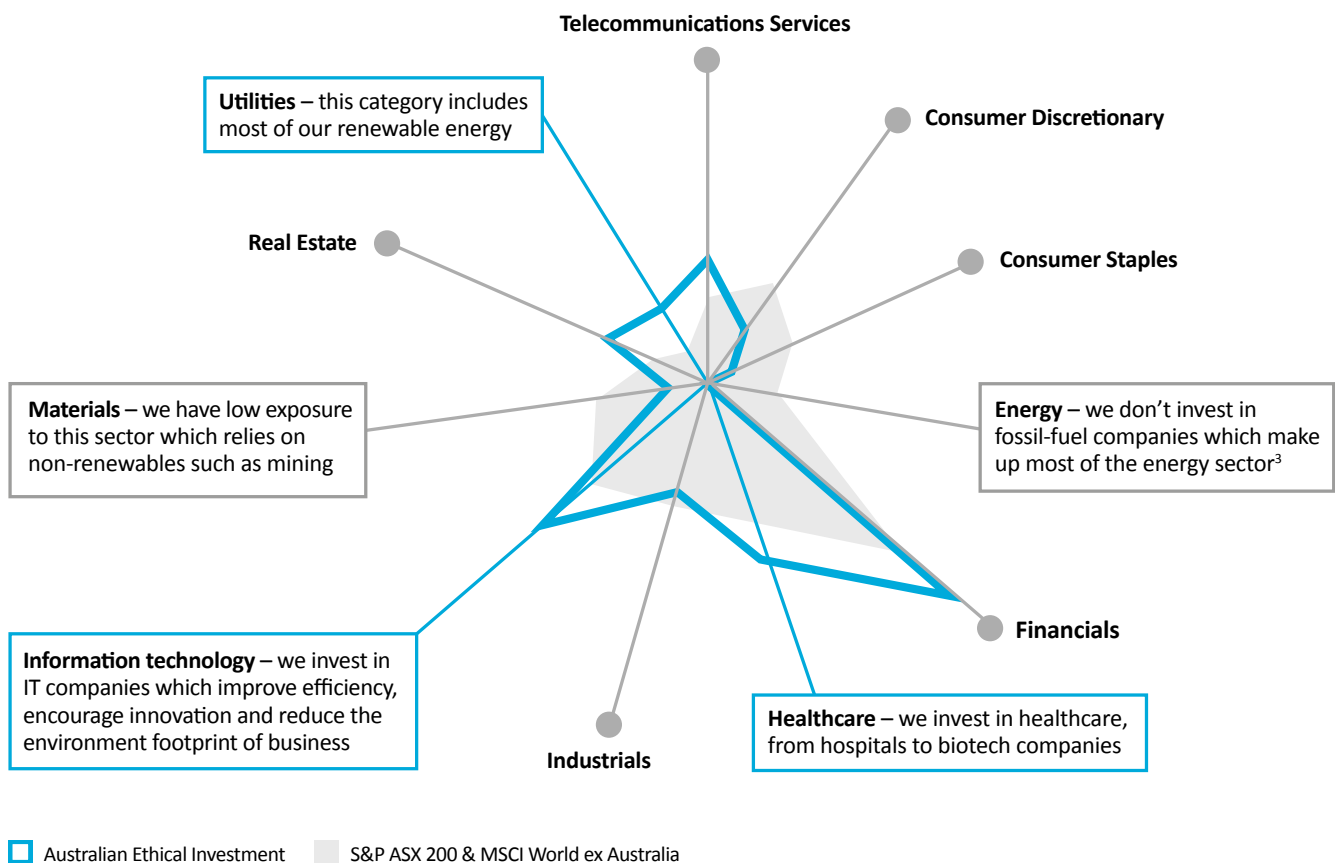
Wisetech: Logistics software and services increasing the efficiency of transport of goods around the world.

1. Since our divestment, APRA's legal action to disqualify officers of IOOF has failed. The court's judgement does not deal directly with our reasons for divestment but will be relevant to our future review of the company.



The effect of the Ethical Charter on our stock selection is clearly visible in the chart below. It shows for example, that our equities portfolio (plotted in blue) has an overweight investment allocation to Utilities (including renewable energy), Information Technology and Healthcare. However, we offer no allocation to Energy (fossil fuels) and low allocation to Materials (mining), when compared to the global share market as a whole (plotted in grey).

OUR SECTOR ALLOCATION^{1,2}



1. Past sector allocation is not a reliable indicator of future sector allocation.
 2. As at 30 June 2019.
 3. Since 1 July 2016 we have been free from all companies whose main business is fossil fuels, as well as diversified companies that earn some fossil fuel revenue and aren't creating positive impact with their other activities. We may invest in a diversified company which is having a positive impact in other ways such as producing renewable energy, provided its fossil fuel revenue is sufficiently low (a maximum of 5% to 33% depending on the fuel). (Assured by KPMG.)

How do we choose what to invest in?

CASE STUDY

Food production

Investing in a food producer can be a complex decision for an ethical fund manager. Before investing we must consider factors like health, environmental sustainability and animal cruelty.

Applying the principles of the Australia Ethical Charter means food must meet three fundamental criteria to be investable. It must:

- Form part of a healthy diet
- Be produced in an environmentally sustainable way
- Avoid unnecessary harm to humans and animals

Part of a healthy diet

In assessing whether a food can form part of a balanced and healthy diet we take into account credible sources like the World Health Organisation's healthy diet guidelines. This means we are unlikely to invest in producers of foods that are high in trans-fats, sugar or salt and look more favourably on producers of fruits, vegetables, legumes, nuts and whole grains.

Environmentally sustainable

Food production has a high environmental impact including deforestation, greenhouse gas emissions and impacts to threatened species. We will not invest in food producers unless their food products are aligned with limiting global warming to 1.5°C.

Harm to humans and animals


We closely monitor the labour practices and human rights risks within all of our investments. Food production is particularly susceptible to human rights breaches because it is labour-intensive and workforces are often seasonal and isolated. We will avoid investment if there is systemic disregard for human rights by a food producer. Food processors must take steps to manage the human rights risks in their supply chain and have an ethical sourcing policy as an absolute minimum.

The majority of animal products consumed today are produced in intensive systems with high-density stocking and accelerated fattening. Overuse of antibiotics within intensive

factory farming also leads to dangerous antibiotic-resistant bacteria. We assess this harm as unnecessary because balanced plant-based diets can sustain healthy human life, and have a much lower carbon footprint. As a result, we do not invest in current systems of commercial animal agriculture including meat, dairy, eggs and seafood.

Sustainable food

We do invest in Costa Group which grows, packs and markets fresh fruit and vegetables including blueberries, tomatoes, avocados and mushrooms in Australia and overseas. We also provide a multi-year Foundation grant to Food Frontier, which is a think tank and advocate for the alternative meat sector in Australia.



Three fundamental criteria must be met before we invest in food production

- 1** Food must form part of a **HEALTHY DIET**
- 2** Food must be produced in an **ENVIRONMENTALLY SUSTAINABLE WAY**
- 3** Food production must **AVOID UNNECESSARY HARM** to humans and animals

Applying the Charter in a changing world

CASE STUDY

Social media

Social media and digital platforms like Facebook, Google and Twitter again required our careful attention this year. Following on from the Cambridge Analytica scandal of early 2018, we considered the live streaming of the Christchurch mosque shooting and the then ongoing investigation of Russian involvement in the misuse of social media platforms in the 2016 US elections. We looked at ongoing research into social media use patterns and its impact on young and old people. We also considered the draft (now final) recommendations of our Australian Competition and Consumer Commission (ACCC) about better regulation of digital platforms.

With these factors in mind, we reviewed again our investment in social and digital media. Turning first to the negatives, we considered the many serious concerns about harm from misuse of digital media. There are too many to discuss here, but perhaps the most important challenge is that social media is contributing to the polarisation of views and hateful discourse between those who disagree. At a personal level this is harming relationships in families, schools and communities; at a broader political level it is harming civil and productive debate about important and complicated issues like how we can best respond to climate change.

Getting the balance right

While we recognise these harms and risks, many of them pre-date the digital revolution. Societies have always struggled to reconcile the harm caused by an irresponsible exercise of a right of free speech with the benefits of protecting broad (though not unlimited) free speech. The challenge of getting this balance right has increased with the emergence of powerful digital communications tools, but that power cuts both ways. Social media has been misused to deceive and mislead, but it is also used to hold powerful governments, businesses and individuals to account (e.g. in the work of [Amnesty International](#), [#metoo](#), [#blacklivesmatter](#), [Getup](#) and [#climatestrike](#)).

In balancing the overall benefits and harms of social media and other digital platforms, we see particular value in the increased power they give us to share and access digital content. At this time, we assess that the unprecedented access that people currently have to diverse news and information has and can continue to contribute to more informed and sustainable democracies, economies and societies. We believe business, government, parents, teachers and users can and should learn to evolve, regulate and use these powerful new tools responsibly – in a way which does not hide behind anonymity, which is not addictive or narcissistic, and which values respectful disagreement and encourages the sharing of expertise and perspectives.

With this background, we will only invest in a social media business if we assess it is taking reasonable steps to minimise harm from misuse of its platform. This includes action to: safeguard user data; allow users access to their own data and control their use of the platform; take down harmful content; and to protect against government censorship of content on their platform. We also expect social media companies to play a constructive role in effective public regulation of their industry, even where it challenges existing business models. One focus area is changes to protect quality, independent journalism. We're also supporting a global engagement movement, being led by New Zealand investors who responded to the Christchurch mosque shooting to improve social media controls over distribution of violent content.

Facebook

We recognise that Facebook has behaved badly on many occasions. But we have also seen positive initiatives from them, including: automated flagging and screening of hate speech and disputed news; changing algorithms to give users more information of interest to them rather than advertisements; creating resources for teens, parents and educators seeking support for online bullying; giving users more access to and control over their own data; and improving automated processes to take down harmful content. While one can be sceptical given Facebook's past missteps, we currently assess that Facebook is committed to creating a sustainable platform.





Our ethical approach to business

Australian Ethical provides investors with the most authentic and comprehensive green investment choices on the market. Our investment decisions, the way we recruit, the way we treat our employees and suppliers, and the decisions made when operating our funds are all governed by our Ethical Charter. We are not simply ‘ticking boxes’, but are true to our ethical label, through and through.



We have been named as a B Corp ‘Best For The World: Governance’ honoree every year since we were first accredited in 2014. To earn this accolade, we must score in the top 10 percent of B Corps globally in the rigorous Governance section of the B Impact Assessment. This section evaluates a company’s overall mission, ethics, accountability and transparency. It measures whether the company has adopted a social or environmental mission, and how it engages its employees, board members and the community to achieve that mission. The Governance portion also assesses employee access to financial information, customers’ opportunities to provide feedback and the diversity of the company’s governing bodies.



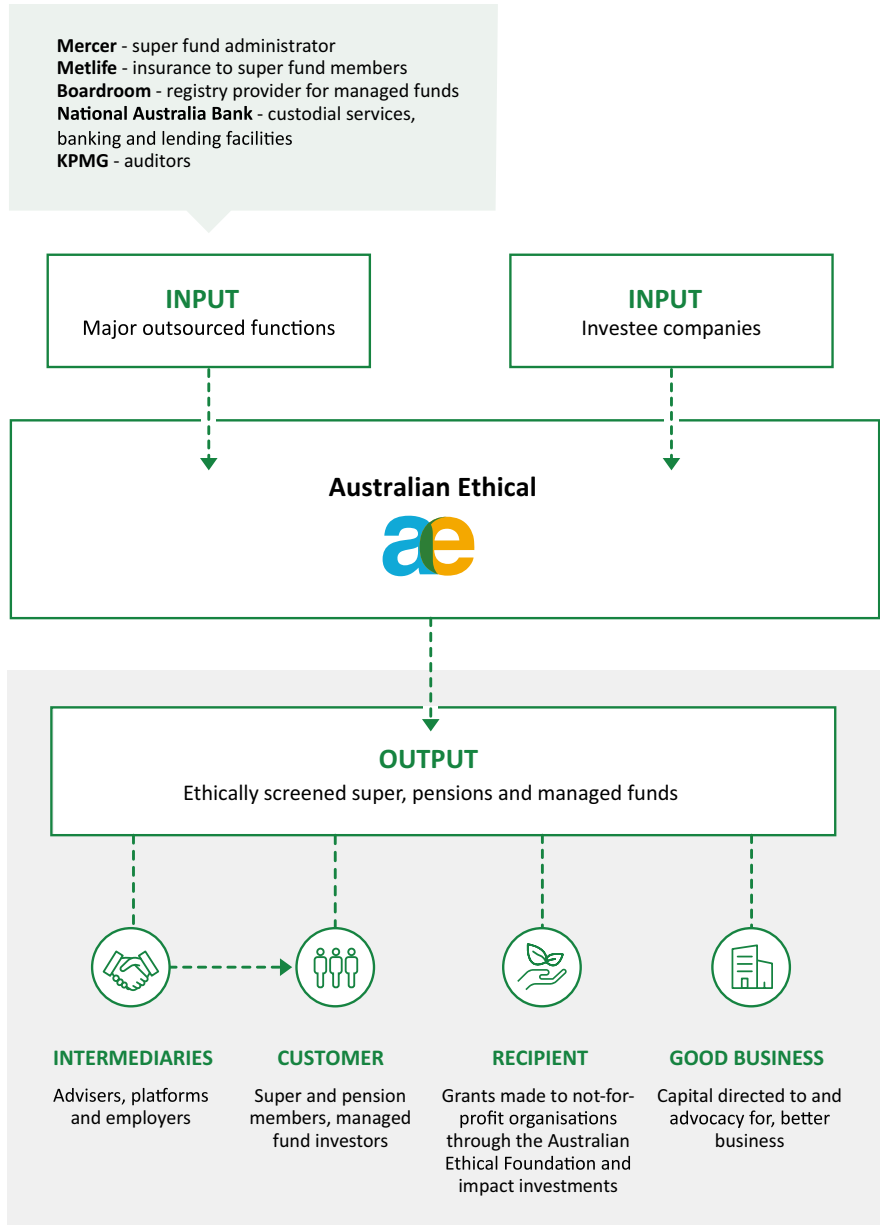
Ethical supply chain

We invest and manage our business, conscious of our impact on the world around us.

Our supply chain inputs – our investee companies and our material service providers – are first screened to determine their alignment with the environmental and social principles of the Australian Ethical Charter. For example, to pass our screen, the larger¹ companies who we do business with or invest in must avoid contributing to breaches of human rights. We scrutinise companies with large supply chains in countries with a poor record on human rights or worker protection. We focus on the way influential companies monitor overseas workplaces, including for potential use of child labour. We have chosen not to invest in several clothing and electronics companies because of human rights concerns.

During the reporting year there were no new major outsourced functions, however in our day-to-day operations, we have changed some of our suppliers to certified B Corps such as Sprout Coffee and Tea Tonic.

1. In some cases the vendor or investee may be too small for it to be reasonable to expect them to have detailed supply chain due diligence documentation.



Governance

The principles of our Ethical Charter are applied across our investment activities using a series of ethical frameworks, policies and measurement systems. The implementation is overseen by the Ethical Advisory Group (EAG), comprising the Managing Director, Chief Investment Officer (CIO) and Head of Ethics Research. The climate-related work of the EAG includes the ongoing review of our ethical screening for emissions-intensive sectors and setting climate advocacy and engagement priorities. The Board of Directors has oversight of the EAG through scrutiny of reporting of quarterly EAG activity and of critical ethical issues.

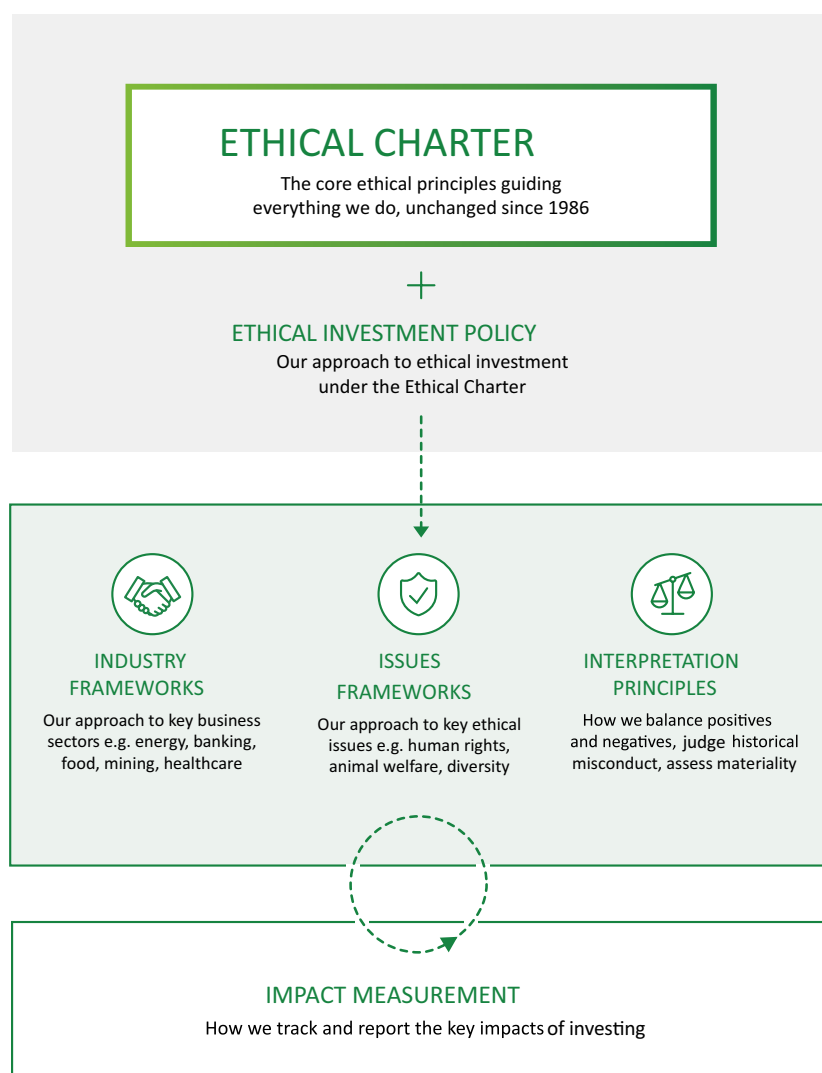
Our ethics research team monitors existing and emerging ethical risks (including climate-related risks) using diverse company, industry, government, responsible investment, scientific, civil society and news sources. The team assesses whether these developments require review of our existing ethical assessments of companies and industry sectors, including our company engagement priorities. The work of the ethics research team is overseen by the EAG and in turn the Board.

An example of how we apply our ethical framework to the assessment of the food production industry is provided on [page 20](#) of this report.

Managing risk

As our business continues to grow it is vital our business model and processes remain fit for purpose. As such we continued to review our risk management practices in FY19 to ensure they are adequately embedded in the way we do business.

The Risk Culture Dashboard is a tool used by the Board to report on the status of risk culture within the group over time.



Transparency of investment portfolio

The transparency of our investment portfolio has been highlighted by our stakeholders (in the GRI materiality assessment) as very important to our business success. For many years we have published the names of [the companies we invest in](#) on our website and this year we enhanced the way we present the [online performance and holdings](#) data for each of our managed funds. This new tool provides investors with a live snapshot of key insights such as our rolling performance against benchmark, our asset breakdown and our top 10 holdings for each of our managed funds at any point in time.

We also launched our [Carbon footprint calculator](#) which allows investors to see what influence their lifestyle and investment choices can have on their personal carbon footprint. Turn to [page 35](#) to see how it works.





Net zero by 2050

Achieving zero carbon emissions requires fundamental changes to the way we produce and consume. Investors have a crucial role to play, and we're driving change in three ways:

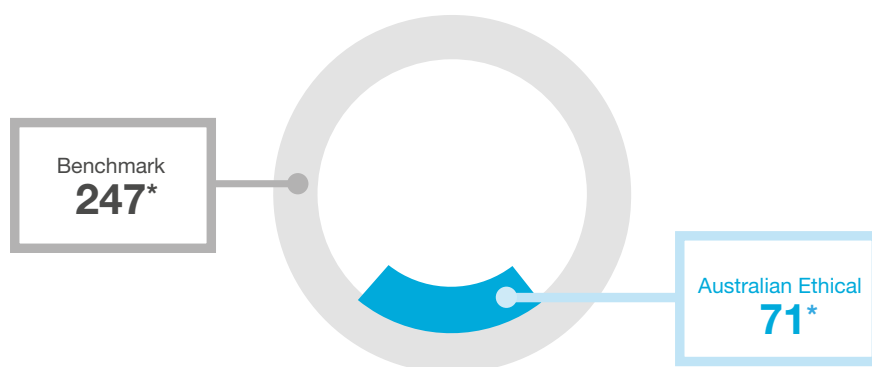
- 1** Our investment choices
- 2** Our advocacy and engagement on climate action and policy
- 3** Reducing and offsetting our own operational emissions

Investors can help fight global warming if they only choose companies with strategies aligned with limiting warming to below 1.5 degrees. By shifting capital from fossil fuels to renewables, investors help to bring down the price of renewable energy; they encourage investment in more flexible electricity grids and energy storage; and they contribute constructively to a sensible public discussion about energy policy. We believe these investors, particularly universal investors like super funds, are also acting in the financial interests of their customers, because sustainable, risk-adjusted returns will be better in a low-warming world than a high-warming one.

Our share portfolio is **70% less carbon intensive** than the benchmark*



We assess the carbon footprint of our share investments based on the carbon intensity of the companies we invest in. This is calculated from direct and some indirect emissions (Scope 1 & 2 emissions) of the companies relative to their revenue.

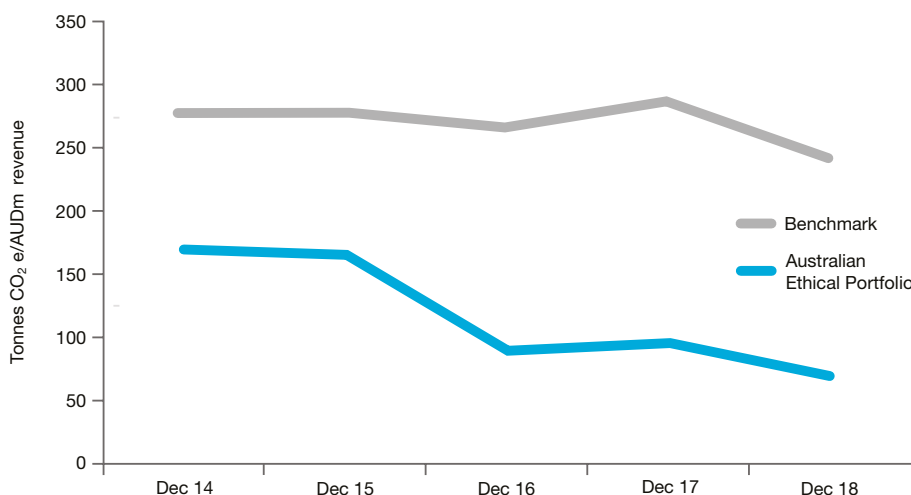


*Carbon footprint and carbon intensity are measured in tonnes CO₂e/AUDm revenue. The Benchmark is a blended benchmark of S&P ASX 200 Index (for Australian share holdings) and MSCI World ex Australia Index (for international share holdings). More information on how we calculate our carbon footprint is contained in our [TCFD Report](#).

Our carbon footprint target is **net zero emissions**



We have been tracking our progress towards net zero emissions since 2014 and as the chart below shows, the carbon footprint of our portfolio is reducing.



This chart shows the carbon footprint of our share investments, calculated as their carbon intensity measured in tonnes CO₂e/AUDm revenue, compared to the Benchmark. The Benchmark is a blended benchmark of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and MSCI World ex Australia Index (for international fund share holdings). More information on how we calculate our carbon footprint is contained in our [TCFD Report](#).



Why is our carbon footprint so low?

We have no to very low exposure to high-emissions industry sectors such as mining and traditional energy. Instead our portfolio is overweight in low-emissions sectors such as information technology (IT) and communications.

We do invest in the utilities sector which is usually associated with high-emissions companies like energy producers. However, our investments in this sector actually include lower carbon renewables companies like Infigen Energy and Meridian Energy, which means our overall investment in this sector lowers our footprint compared with the benchmark.

Even for low carbon portfolios like ours, analysing our investment carbon footprint is important to check the ethical rationale for our investment in higher-emissions companies. The table below lists our ten most carbon-intensive companies and why we still invest in them under our Ethical Charter, even though they are engaged in energy-intensive activities such as waste management and glass manufacturing.

When we look at the overall impact of these businesses, their carbon intensity is outweighed by their positive contributions to waste recycling and to renewable energy and its infrastructure. We believe they are all playing a significant part in the transition to a sustainable net-zero emissions world.

Company	Sector	Country	Carbon intensity (tCO ₂ e/AUDm revenue)	Positive under Ethical Charter
Covanta Holding Corp	Industrials	USA	1,799	Waste treatment, recycling and disposal, including energy generation from waste incineration
Orocobre Limited	Materials	Australia	1,497	Lithium for lithium ion batteries for electric vehicles and storage
NextDC Limited	Info Tech	Australia	1,313	IT servers and data centre infrastructure. They are energy hungry but overall help efficient use of resources.
Ausnet Services Limited	Utilities	Australia	989	Electricity network infrastructure needed for the transition to 100% renewables. They are emissions intensive because of the energy lost (as heat) when electricity passes through the networks.
Spark Infrastructure	Utilities	Australia	961	
Veolia Environment SA	Utilities	France	918	Water and waste management and treatment
Contact Energy Limited	Utilities	NZ	636	Renewable electricity (hydro and geothermal)
AGC Inc.	Industrials	Japan	632	Glass for solar and noise control, security and insulation
Nippon Sheet Glass Co	Industrials	Japan	592	Glass for solar energy production, and for solar and noise control, security and insulation
Sealink Travel Group	Consumer	Australia	538	Lower emissions transportation: Ferries and other shared transport



6 times the investment in renewables



We also track whether our investment in renewable power generation* is enough to help with the massive global shift to renewables required to limit warming to below 1.5 degrees Celsius. Our analysis showed that:

- our share investment in renewable power generation is proportionately about **six times** that of the global share market
- and that the renewable generation capacity of our portfolio of power companies is projected to grow at the rate needed to limit warming to **1.75°C**.

How we measure this

We used analytic tools from the European 2° *Investing Initiative* ('2ii') to assess this. We looked at the power generation capacity of our share investments at the end of 2018. The analysis showed that the combined projected increase in renewable power generation (including solar, wind, geothermal and hydro) over the next five years is aligned with the [International Energy Agency \(IEA\) Sustainable Development Scenario \(SDS\)](#) and the more ambitious [Beyond 2 degrees Scenario \(B2DS\)](#).

The SDS is a scenario of transformation of the global energy system to achieve three key objectives: to limit global warming to well below 2 degrees; to provide universal access to modern energy by 2030; and to dramatically reduce premature deaths from air pollution. The B2DS is a more aggressive energy emissions reduction scenario to limit future temperature increases to 1.75°C by 2100. We look forward to testing our investments against the 1.5°C scenario currently under development by the IEA.

*Please refer to our [TCFD Report](#) for more information on our investment in renewables.

6 x more 
INVESTMENT IN RENEWABLE POWER
GENERATION THAN THE GLOBAL SHARE MARKET

Our operational emissions – net zero since 2016



Our total operational Scope 1 & 2 emissions (direct emissions from our place of work, our operations and the generation of electricity used in those operations) is 50.23 (tCO₂-e p.a.).^{1,2} This number remained relatively flat year on year despite our workforce increasing by 9%. This means our emissions per employee actually dropped to 0.77 tonnes of CO₂ emissions per year. We keep our emissions low by using 100% renewable electricity, by only printing and photocopying when absolutely essential and using 100% recycled paper. We also source suppliers aligned to our ethics, including our low carbon business practices, wherever possible.

Our operational Scope 3 emissions include the emissions of every flight, taxi, Uber or personal car trip taken for work at Australian Ethical. Our operational Scope 3 emissions increased compared with FY18 due to additional flights to Melbourne and New Zealand deemed essential for business. All our operational Scope 1 & 2 and 3 emissions are 100 per cent offset by credits from the [Kariba REDD+ project](#). The project helps farmers in Zimbabwe sustainably increase their productivity to prevent further land clearing.

Category	FY17	FY18	FY19	Trend
Operational Scope 1 & 2 (total)	41.5	50.11	50.23	●
Operational Scope 1 & 2 (per employee)	0.84 (49)	0.86 (58)	0.77 (65)	●
Operational Scope 3 (total)	36.6	36.5	54.69	●
Offsetting of Scope 1, 2 & 3 emissions	100%	100%	100%	●

1. As context, the average Australian emits 21.4 tonnes CO₂ emissions per year. [Quarterly Update of Australia's National Greenhouse Gas Inventory: March 2019](#), Figure for the year to March 2019.

2. Units are tonnes of CO₂ emissions per annum (tCO₂-e p.a.)



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Track your impact

Our carbon footprint calculator

Our customers tell us that climate change is their number one area of concern.¹ To help our customers and others understand the impact lifestyle and investment choices could have on their carbon footprint, we developed a [carbon footprint calculator](#).

1. Australian Ethical Brand Research, Pollinate March 2019

How it works

This case study demonstrates how the calculator applies to the lifestyle of 'Jo'. The options Jo selects to reflect her lifestyle are highlighted in **bold**.



CASE STUDY

Jo lives in a **medium** house in Melbourne with **two other people**.

She buys her electricity from **non-renewable sources**, but she does tend to **conserve energy**.

She travels mostly by **train** and takes an annual holiday overseas, **a long flight away**.

She **occasionally eats meat** and generally eats a mixture of **fresh and convenience foods**. She believes she produces an **average amount of waste** that she takes care to **recycle**.

Jo has **\$80K** including her super invested in mainstream funds and she enters this amount into the calculator.

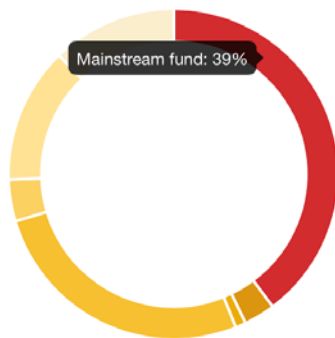
Jo discovers the carbon footprint of her lifestyle and investment choices could be as much as **28.11 tonnes of CO₂ emissions annually (tCO₂e p.a.)**. Of this, her investments account for **11.08 tCO₂e p.a. or 39.43%** of her carbon footprint. (It's important to note this is only an estimate and is based on a range of assumptions, which are explained [here](#)).

Jo then uses the calculator to model her impact if she switched her investments to a low carbon fund. It calculates her overall carbon footprint would drop by nearly a quarter to around **21.63 tCO₂e p.a. or 21.28%** of her carbon footprint.

It also reveals that her overseas holiday is the biggest contributor to her annual carbon emissions impact.

Your impact

Your overall annual carbon footprint is estimated at **28.11** tonnes of CO₂ emissions (CO₂e). Your investments in a mainstream fund accounts for around **11.08** tonnes CO₂e or **39.43%** of your carbon footprint.

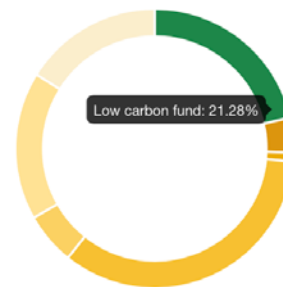


WITH A MAINSTREAM FUND

● INVESTMENTS ● HOUSING ● TRAVEL ● HOLIDAYS ● DIET ● GOODS ● OTHER

Your impact

Investing in a low carbon fund could reduce your overall annual carbon footprint by approximately **23.05%** to around **21.63** tonnes CO₂e.



WITH A LOW CARBON FUND

● INVESTMENTS ● HOUSING ● TRAVEL ● HOLIDAYS ● DIET ● GOODS ● OTHER



Our impact: the SDGs

Sustainable Development Goals: Impact over 3 times the market

One measure of the impact of companies is the annual revenue they earn from products and services which are helping to meet the **Sustainable Development Goals** (SDGs). The SDGs identify 17 goals which governments, business and civil society need to achieve to build a just and sustainable future, things like climate action, reducing inequality and responsible consumption and production.

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The table on the following page shows the value of selected 'sustainable impact' products and services produced annually by Australian and international companies that we invest in. We estimate this as **3.1** times the sustainable impact of an equivalent investment in the overall share market.

This is strong validation of the positive impact of our ethical investment process. Our support of urgent climate action shines through

in the revenue generated from companies that produce both energy efficiency and alternative energy, and we estimate that to be at around five times the sustainable impact of an equivalent investment in the overall share market. Pollution prevention impact is also high at 10 times the market, and our education impact is the highest at 18 times.

In other areas our impact revenue is lower. Our revenue from major disease treatment is in line with the market, even though we invest heavily in the healthcare sector. This is partly because of the definition of major disease treatment, which does not include general hospital care, for example. Also, the positive impact of biotech company research into more effective disease treatment may not be captured when impact is measured by revenue, because revenue will only be earned from this business activity in the future once successful research is commercialised.

Our company revenue supporting access to nutrition is also low (at half the market). Food production plays an essential role in the well-being of people and the alleviation of poverty, which are important focuses for our ethical impact. However, it can be challenging to find opportunities to invest in sustainable agriculture. During the year we did make a private investment in Sundrop, a ground-breaking greenhouse business which grows 17,000 tonnes of truss tomatoes a year in arid conditions in South Australia. The facility uses sea water which is desalinated with power from a concentrated solar tower system. We invested through the unlisted Morrison & Co Growth Infrastructure Fund, along with other investors including the Clean Energy Finance Corporation (CEFC). We continue to look for other opportunities to invest and engage for accessible and sustainable nutrition.

	Sustainable impact revenue per \$1 million invested (\$AUD)		Investment examples	Impact examples	Contributing to SDGs
Alternative Energy	15,320	5.2 times market	Contact Energy Infigen Energy Mercury NZ Vestas Wind Systems	Renewable wind, solar, hydro and geothermal energy	
Energy Efficiency	14,820	5.6 times market	East Japan Railway Jungheinrich AG Owens Corning Tesla Inc	Rail, insulation, electric cars, batteries	 
Green Building	5,980	2.6 times market	Lendlease Mirvac Group Stockland Vornado Realty	Certified commercial and residential green buildings	
Sustainable Water	2,330	6.5 times market	Aegion Corp United Utilities Veolia Environnement Xylem Inc	Water supply, treatment and recycling	 
Pollution Prevention	33,290	10.1 times market	Asahi Holdings Darling Ingredients Interface Inc Sims Metal	Recycling of metal, electronics and food	
Nutrition	4,770	0.5 times market	Costa Group Holdings J Sainsbury Plc	Basic food products including fresh fruits and vegetables	 
Affordable Real Estate	1,450	2.6 times market	HCP Inc. LendLease Welltower	Seniors and other affordable housing	
Major Disease Treatment	4,120	0.9 times market	Amgen Inc Biogen CSL Limited Resmed	Medicine for blood, kidney and breathing disorders and influenza	
Sanitation	2,180	1.3 times market	Australian Pharmaceutical Industries Toto Limited	Cleaning products, toilets, washbasins	
SME Finance	70	0.1 times market	Natixis SA Skandinaviska Enskilda Banken	Loans to small and medium business	
Education	4,220	17.8 times market	G8 Education IDP Education Pearson Plc	Digital tools for teachers, learners and researchers	

The revenue estimates in the table are for selected positive products and services which are produced by Australian and international companies whose shares we invest in and that have been analysed by global research firm MSCI ESG Research LLC for their “sustainable impact”. MSCI ESG Research have done this analysis for 78% of our share investments (by value). We assume that the \$1 million is invested in listed shares of these companies only. We do not take account of our other investments such as fixed income, unlisted investments or our investments in companies which are not analysed by MSCI ESG Research for sustainable impact. Since they only look at selected products and services, MSCI ESG Research’s analysis of revenue from sustainable impact does not take account of all positive contributions that companies make to the SDGs. The MSCI ESG Research calculation methodology makes many assumptions, further information is available [here](#).

MSCI ESG Research exclude any sustainable impact revenue of companies which do not meet certain minimum ESG standards. However, we have included sustainable impact revenue of companies which were excluded because the companies were not assigned an ESG rating by MSCI ESG Research. Using the MSCI ESG Research data we estimate our total sustainable impact to be 3.1 times the sustainable impact of investment of the same amount in the overall share market. This estimate is based only on investment in shares in companies which MSCI ESG Research analyse for sustainable impact. The overall share market is a blend of the S&P ASX 200 Index (for Australian and New Zealand share holdings) and the MSCI World ex Australia Index (for international fund share holdings). The above analysis is based on our share investments as at 31 December 2018.

Although we have used company research data provided by MSCI ESG Research, MSCI ESG Research is not responsible for the way in which we have used that data to calculate the above amounts. MSCI ESG Research (1) retains copyright in all its data; (2) does not warrant or guarantee the originality, accuracy and/or completeness of their data; (3) makes no express or implied warranties of any kind, and disclaims all warranties of merchantability and fitness for a particular purpose; (4) has no liability for any errors or omissions in connection with their data or for our reporting and use of their data; and (5) without limiting any of the foregoing, has no liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Engaging for good

As an outspoken ethical investor, we straddle the activist world and the institutional investor world, and we think the two make a powerful combination. As an ethical organisation we choose to advocate on the issues that matter. As a business that manages a significant volume of capital across the economy we can influence the activities of companies and provide an independent voice on public policy.

Investor collaboration scored big wins for the planet

Large scale changes are needed to make society fairer and more sustainable. No one individual or organisation can achieve this all on their own, but through collaborative efforts, big changes can happen. Collectively the global investment community has arguably more influence over the activities of the corporate community than many nation states. More institutional investors are realising this and acknowledging the responsibility that comes with it. And slowly, big changes are happening.

In the reporting period responsible investors continued to use shareholder-initiated resolutions to pressure companies to act on climate change and human rights. Moving a resolution at a company's AGM is an important tool for changing company behaviour and a means of putting directors and executives on the spot and bringing an issue to the attention of other shareholders. This year we supported resolutions for Australian companies Origin, QBE, Woolworths and Qantas. Although we do not invest in some of these companies, we directly engaged with the companies on the issues raised in the resolutions and, in some cases, acquired nominal shares in the company so we could vote in favour of the resolution and

publicly question company directors at the AGMs. We also supported resolutions for international companies including Adobe, Facebook, Netflix and Alphabet (Google). A common theme across many of the climate-related resolutions has been company membership of industry associations that obstruct sensible climate and energy government policy. The Minerals Council of Australia and the Business Council of Australia have both been accused of undermining Australia's carbon price and emission reduction targets. But responsible investors are fighting back and now some of the largest members of these associations are pressuring the associations into engaging in more climate-friendly government advocacy. In October 2018, nearly half of Origin's shareholders demanded the company report on whether lobby groups it supports are obstructing action on climate change, which Origin has now done. This was the largest ever protest vote in Australian corporate history and it represents a big blow against Australia's powerful anti-climate lobbyists.

This year the Climate Action 100+ initiative (which included Australian Ethical) continued to flex its \$US33 trillion in investment capital to engage for the planet with the world's largest emitters of greenhouse gases. One target company, Glencore, made commitments to cap its global coal

output. Shell, also under pressure from investors, set its first three-year emission reduction target which importantly covers all emissions from extraction to end use of its products (i.e. including Scope 3 emissions). While climate targets, caps and other commitments could be perceived as public relations exercises on behalf of big polluters, it is still significant that these companies are publicly recognising their role in meeting the climate challenge. It is up to investors to keep the pressure on, to hold these companies to account to both meet and increase their commitments to respond to the climate emergency. Australian Ethical will not back down from this fight.

Advocating for an end to unnecessary harm to animals

Non-human animals have the capacity to suffer and we should not cause them unnecessary harm. This principle is built into our Ethical Charter, applied in our investment decisions and drives a large part of our advocacy. In theory this principle is not controversial, but it quickly becomes so when applied in practice. The interests of humans and other animals often clash and, in those circumstances, how you define what is necessary depends on whose interests are being prioritised. Striking the right balance is not clear-cut and reasonable people can legitimately reach different conclusions to ours.



This year on behalf of our customers we:

Had over **300 ENGAGEMENTS** with more than **250 COMPANIES** to influence positive change on issues relating to the environment, animal protection and treatment of people

Were involved in over **EIGHT COLLABORATIVE INVESTOR ENGAGEMENT PROGRAMS**

Individually **ENGAGED WITH 75 COMPANIES**

Voted for over **50 SHAREHOLDER RESOLUTIONS**, speaking in support of them at two Annual General Meetings

50 COMPANIES that we engaged with either made positive change during the year or made a commitment to do so (with more to come).

Solar-powered tomato farming

We invest in Sundrop (through our investment in the Morrison Growth Infrastructure Fund), a tomato farm in Port Augusta, South Australia. The farm integrates its greenhouses with an onsite solar farm and a desalination plant to reduce its dependence on grid energy and minimise its use of fresh water. These innovations make the company less vulnerable to increasing energy costs and drought and far less taxing on its local environment and resources. Sundrop currently produces about 15% of Australia's tomato supply.



Not necessary: harming animals for entertainment and sport. We take a firm stand against industries and companies that harm animals for entertainment or sport. In the lead-up to the Melbourne Cup we used social media to raise awareness of animal suffering in horse racing. Many people challenged our position including a small number of our own members. Some disagreed with our stance but still respected our ethical research process and the overarching principles that guide our decision-making. A few members chose to leave our fund. It is inevitable that publicly campaigning on ethical issues will attract challenge and pushback. But no important social justice movement has achieved its objectives without it.

Not necessary: harm from conventional animal agriculture.

We considered carefully, over a long period of time, our position on food and animal agriculture. Animals inevitably suffer in conventional animal agriculture, where current regulation, breeding practices and business models often pay limited attention to animal well-being and their ability to express natural behaviours and instincts. From a numerical perspective, the scale of the suffering is immense. Globally, hundreds of millions of farm animals are slaughtered each day. Dietary guidelines provide that for most people, well-balanced and planned plant-based diets are healthy and nutritionally adequate. For this reason, we do not think the harm caused to animals in current systems of commercial food production is necessary. In reaching this decision we also considered the fact the environmental footprint of a plant-based diet is comparatively small, and a global transition towards healthier

and more sustainable plant-based diets is essential if we are to limit climate change to below dangerous levels.

Dietary choices are deeply personal and discussions on the subject can evoke strong emotional responses. There is an inherent risk in engaging in any public advocacy on this topic. But given the scale of the animal suffering, and the strong link to climate change, the ethical imperative to raise awareness is clear. In April this year, we published a number of thought pieces on dietary choices to encourage our followers and members to think more about plant-based protein and in May we supported the No Meat May campaign.

A growing number of companies are developing ways of imitating or replicating meat and other animal products using plants and even animal cells. Animals are removed from the production process and the environmental impacts are significantly less than traditional meat production. For example, plant-based meat producers claim their products use 95% less land, produce 87% less greenhouse gas emissions and use 74% less water than cattle, while also curbing antibiotic resistance, decreasing water pollution and habitat loss, and reducing food wastage. We think alternative meats are a perfect solution. We are supporting the industry through our [Foundation](#) and our advocacy. Through [FAIRR](#), a global network of investors addressing ESG issues in protein supply chains, we engaged 25 food companies including Coles and Woolworths. We're encouraging these companies to expand their alternative protein product portfolio. During the year, 92% started stocking alternative protein products or announced plans to do so.

Necessary: harm from animal research for healthcare. In Australia each year millions of animals (mostly mice, but also baboons, dogs, cats, rabbits and native animals) are used for medical research, experiments and surgical skills training. We recognise that animal research is currently a necessary part of developing important healthcare (we rule out animal testing for cosmetics). But given medical research causes animals extreme distress and pain, we expect companies involved in animal research to take seriously their obligation to avoid and reduce animal suffering wherever possible. Our greatest concern is that those involved in the review of proposed animal research may face institutional and other pressure to approve research even when it is not ethically justified, and rarely consult with experts in alternative technologies. We wrote to 17 healthcare companies setting out our concerns and suggestions for how companies could address them. We will be following up these companies and will factor their responses into our ethical assessments and reassessments going forward.

Animal welfare issues are often overlooked or are not prioritised by many investors, even those in the responsible investing community. We are trying to change this by putting animal welfare on the sustainable investment agenda to raise understanding and expertise. We also called for the [ASX Corporate Governance Council](#) to impose clear expectations for companies to disclose and manage animal welfare impacts, in addition to environmental and social impacts. We think it is vital that the power of collective investor advocacy is leveraged not only for climate action and protection of human rights, but to combat the unnecessary suffering of all.



More information on our advocacy work is available [here](#) and [here](#).

The Australian Ethical Foundation



The Australian Ethical Foundation

We donate **10% of our annual profits¹** to the Australian Ethical Foundation.

The Foundation allocates this funding to charitable organisations and social impact initiatives aligned with our three pillars of the planet, people and animals. Through our Community Grants program, strategic multi-year grants and impact investments, we strive to address some of the world's most pressing issues by funding the most effective grassroots organisations and solutions.

Community Grants

In FY19, our Community Grants program received 380 applications for grants. The **20 winners** were chosen with the help of online voting by more than 18,000 customers (including super fund members and investors), employees, shareholders and our extensive social media community.

Strategic multi-year grants

Since 2018 we've focussed our strategic funding on addressing the biggest issue of our time: climate change. Utilising leading research, most notably from [Project Drawdown²](#), we're funding the most effective solutions by partnering with leading charitable organisations.

Food Frontier

According to Project Drawdown², shifting to a plant-based diet is the fourth most effective solution to climate change, primarily due to the carbon impact of the livestock agricultural industry. [Food Frontier](#) is a think tank and industry accelerator for plant-based and cell-based meat alternatives in Australia and New Zealand. Food Frontier believes food innovation is critical to feeding the growing global population in coming decades and is working to create a more diversified, efficient and future-proof food supply. Through research, advocacy, consulting and events, Food Frontier drives science-based solutions to help meet the demand for sustainable and healthier proteins.

Australian Ethical is funding Food Frontier's industry acceleration efforts as they work with start-ups, investors, manufacturers, retailers and governments in Australia, New Zealand and Asia. According to VOW, Australia's first cell-based meat company, Food Frontier has "acted as a solid industry sounding board and facilitated relevant



introductions. We've used their design assets in our presentations to great reception, and the Food Frontier Alternative Protein pitch evening at the end of July played a positive role in our capital-raising discussions."

Key impacts in 2019:

- Australian plant-based start-ups **doubled** in 2019, from five to 10
- Food Frontier has **tripled** the size of its investor network, connecting more start-ups with potential investors.

One Girl

Educating girls is ranked as the sixth most effective climate change solution by Project Drawdown. In countries like Sierra Leone, menstruation can be a reason that girls are excluded from learning. Girls are at risk of early marriage or being reprimanded by parents who believe menstruation is a sign of sexual activity. Items like

sanitary pads are expensive and hard to get, forcing girls and women to use scraps of fabric called 'pieces'. These can be an ineffective solution which means girls often miss out on school rather than face the ridicule if an accident happens. Lack of clean water and poor hygiene practices mean the pieces may not always be hygienic when re-used, impacting on the health of the girls.

In 2018, Australian Ethical contributed to **One Girl's** LaunchPad program in Sierra Leone through our Community Grants program. One Girl's LaunchPad program aims to overcome the barriers girls face in attending and succeeding in school due to lack of access to affordable sanitary products and adequate education about hygiene and menstrual hygiene management. Local women, LaunchPad Champions, run the program themselves, providing a source of income from selling sanitary products and the ability to lead change within their communities³.

As of 2018, the LaunchPad program has made significant positive impacts in the lives of women in Sierra Leone, most notably:

100% of LaunchPad members sold menstrual pads after their business training

83% of profits from group savings went back into child education

74% of members using pads changed them 3 times a day

87% of members said pads were more comfortable than pieces

Since the program's launch, awareness and understanding about menstrual health and practices have improved greatly. LaunchPad has shown that wearing pads goes beyond improving the women's physical health – it has restored their sense of dignity.

1. After tax and before bonuses

2. drawdown.org

3. **One Girl 2018 Annual Report:** <https://www.onegirl.org.au/annual-report-2018>

Our people

Our employees join us and are motivated by an alignment of their personal beliefs to the ethos of our company. You can bring your whole self to work here – we’re diverse and we’re socially conscious. Indeed 84% of our employees agree that they highly value working in an organisation where the purpose provides meaningful direction to them.¹

Each year our employee engagement survey provides insights into what we are doing well and the areas that need more work. In FY19 we achieved a score of 71% maintaining our top quartile position in the Aon Hewitt Best Employers 2019 survey.

We attribute much of our engagement success to our ‘Culture Club’. The group is made up of a cross-section of employees and provides a great sounding board to help us understand

the drivers of employee engagement and high-performing teams. The group meets monthly and brainstorms solutions for focus areas highlighted in the survey results.

One of the key issues raised in the FY18 survey was the need for ‘enabling infrastructure’. That is, the right resources, tools, equipment and access to enable people do their jobs more efficiently. Consequently we invested in the IT and Operations areas.

We have appointed a highly experienced Chief Operating Officer, created a formal Project Management Office and embedded project management cycles into our way of doing business. We have appointed a new Head of IT and our IT infrastructure and our digital platform is in the process of being refreshed. Technology, change management, product and operations are key skillsets which we will continue to strengthen within our overall capability.



1. Aon Hewitt Best Employers Survey 2019

Employee engagement

2015	73%
2016	77%
2017	55%
2018	78%
2019	71%

Diversity

Key to our continued success is a vibrant, diverse and inclusive workforce that reflects the whole of society. In FY18 we became one of the few Boards on the ASX with 50:50 gender equality. We have maintained this ratio and increased the ratio of our senior management team to 44% female, with our overall workforce balance at 52% female close to the target of 50% of either gender.

In the reporting year we refreshed the scope and purpose of our Diversity and Inclusion policy to clarify these definitions and their importance in the workplace. We also expanded our recruitment commitment to include all areas of diversity, as well as gender.

To demonstrate our beliefs, we actively participated in International

Women’s Day, wore rainbow colours for International Day against Homophobia, Biphobia, Interphobia & Transphobia, Wore it Purple in support of the LGBTIQ community, and again held our own diversity and inclusion day to celebrate the unique backgrounds and abilities of all our employees.

Long-term sustainability

Our employees share in the success of our business as each is a shareholder. All permanent employees are eligible for a Short-Term Incentive (STI) payment based on their individual performance. In addition, a Long-Term Incentive of company shares will vest in the eligible employee’s name after three years, providing they are still employed and the company has achieved certain hurdles. The hurdles are based on three-year compound annual growth in diluted earnings per share (EPS) as follows: 0-5% – nil shares vest; 5%-10% – pro rata up to 100%; more than 10% – shares fully vest. During the three-year period the shares are held in an Employee Share Trust, employees receive dividends and are entitled to vote on eligible company resolutions.



Progress against targets

Employment category by gender

Category	FY19 actual % female	FY19 Target % female
Board	50%	40%
Senior Management Team	44%	40%
Employees	52%	50%

Total number of employees by employment contract and gender

	Female	Male
Permanent	24	27
Permanent Part-time	8	2
Temporary Contractor	2	1
Total	34	30
64 employees (62.35 FTE)		

Employee turnover by gender

Category	Female	Male	Total
Involuntary	0	1	1
End of contract	0	1	1
Resignation	3	7	10
Total	3	9	12

Employee pay difference by gender

	Average female: male pay difference
FY17	27%
FY18	24%
FY19	9%

Age diversity

Age diversity			
Under 30	30-40	40-50	50-60
17% (11)	32% (21)	37% (24)	12% (8)

Employee country of origin

Country of origin	
Australia	49%
Others comprise:	51%
18% New Zealand, 24% United Kingdom, 9% Sweden, 6% Zimbabwe, 6% South Africa, 6% Vietnam, 3% China, 3% Colombia, 3% India, 3% Sri Lanka, 3% Israel, 3% Croatia, 3% Ireland, 3% Taiwan, 3% Uruguay and 3% South Korea	



Performance management

Our performance management system is built around values-based behavioural criteria, risk and compliance objectives and critical success factors cascaded to all employees from our business strategy. Throughout the year informal feedback on performance is provided. This is supplemented by a more formal biannual performance and career development discussion. Performance management was highlighted as an area needing focus in our 2018 employee engagement survey. In the reporting year we ran a number of workshops for managers and employees on how to provide effective feedback through adopting a growth mindset.

Health and wellbeing

We aim to provide a working environment where employees can thrive both mentally and physically. We provide healthy organic food, meditation classes, personal development sessions and a table tennis table which lifts the heart-rate and encourages friendly cross-floor rivalry. We also encourage participation in lunchtime sports and corporate team events.

Employees participate in range of flexible working arrangements including part-time, staggered working hours and working from home. For parents we provide 18 weeks paid parental leave for primary carers, two week's paid parental leave for secondary carers and we pay superannuation contributions while an employee is on parental leave for up to 24 months. New parents can also now return to work and receive one day of paid leave a week for the first three months.

In FY19, our sick and carers' leave policy was reframed as 'Wellbeing leave' to ensure it appropriately included both physical and mental aspects of health. We also introduced 10 days of domestic violence leave. This is in addition to financial support for relocation and additional leave on an 'as needs' basis.

Volunteering

Every employee has two paid volunteering days a year. This year our volunteers baked bread at the [Bread & Butter Project](#), Australia's first social enterprise bakery, where profits are reinvested into baker training and employment pathways for refugees and asylum seekers. On Melbourne Cup day, we sent a team of staff to ['Where Pigs Fly'](#) Animal Sanctuary, an organisation who rehabilitates and cares for rescued farm animals suffering from cruelty, abuse and neglect.

Our customers

We remain one of the fastest growing super funds in Australia¹. Rather than defaulting to us through their employer, 95% of our super members choose to join us directly online². Our members choose us because they are aligned to our values. They tell us “my principles in life are what you believe in also. That’s why I have and always will be an investor of my savings in Australian Ethical”, and “We fund the world we want, and the way I saw it when deciding was that if my money was going to sit tight for a few decades it should be doing good, not perpetuating more of the headlines I don’t want to see.”

Super	
ACT	1,243
NSW	13,749
NT	627
QLD	4,662
SA	1,684
TAS	1,768
VIC	12,831
WA	3,461
Other	505

Managed funds	
ACT	448
NSW	2,577
NT	71
QLD	947
SA	436
TAS	312
VIC	2,362
WA	483
Other	157

The above managed funds investor numbers include a small subset relating to intermediary platforms. Each platform counts as one investor regardless of the number of underlying investors.

Once our customers join us, they stay. We have the best retention rate of any retail super fund in Australia¹. Our latest Net Promoter Scores of +62² for super members and +54² for managed funds continue to outperform the market.

We received substantial industry recognition in FY19 for our unique combination of ethics and investment expertise. Our super fund received three Gold ratings from SuperRatings, along with the SuperRatings Infinity Award for Sustainability and Money Magazine’s Best Green Super Fund 2019. Our Australian Shares Fund won the Money Management Responsible Fund of the Year award and Financial Standard’s Investment Leadership Award (ESG Category), with the Diversified Shares Fund also a finalist in the category.

In FY19, our growing scale enabled us to pass on the benefits to customers through reduced fees for a number of our managed funds. We also lowered thresholds, which meant more customers were able to take advantage of lower wholesale fees, these fee reductions were automatically applied to eligible customers.

An ethical hub

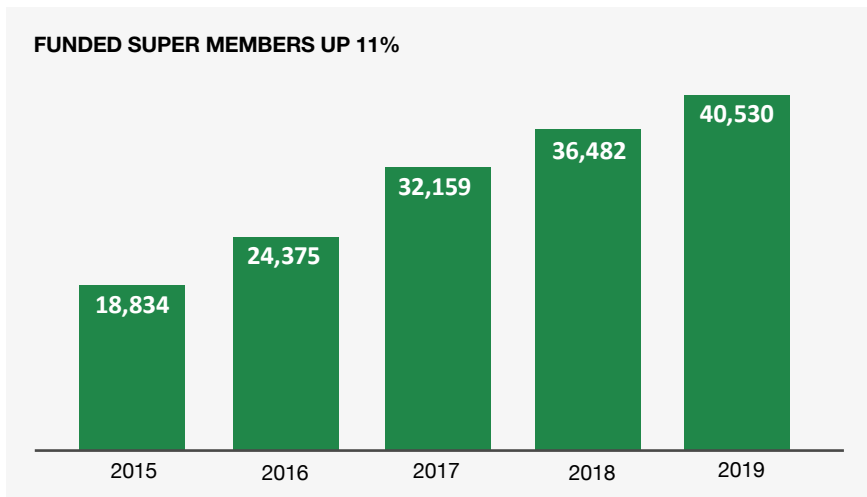
We continue to provide a hub of ethical information and education for our customers and broader social media community. Over the last 12 months we have published 61 blogs providing insights into ethical topics such as ‘How to live a 1.5 degree life’ and ‘Can eating plant-based meals help save the planet?’. We posted daily ethical content on Instagram, Facebook and LinkedIn and published the [Ethical Gift Guide](#), [Sustainable Eating Guide](#) and [Sharing Economy Guide](#).

1. KPMG Super Insights Report 2019. Published 15 April 2019 (Source: APRA Annual Fund level Superannuation Statistics June 2018)
 2. Australian Ethical Brand Research, Pollinate March 2019

In 2019, we were again recognised for our advocacy and digital marketing leadership, winning both the Social Initiative of the Year and Social Campaign of the Year in the Financial Standard MAX Awards.

The most popular social media post in the reporting year was a satirical look at the Melbourne Cup. The Melbourne Cup fails our Ethical Charter on two counts: animal cruelty and gambling. Our Facebook post alone had a reach of nearly 900,000, making it our most successful ever social media campaign. For every share of our post we donated \$1 to the Where Pigs Fly animal sanctuary, reaching a total donation of \$7,441.

Likewise our marketing activities are designed to effectively create awareness of our brand and attract new members, but they also play an important role to educate consumers about key sustainability issues such as the **social damage of gambling** and the connection of investment to climate change.



Note: in previous years we have reported total membership, however funded members are more representative of revenue drivers. We have thus changed reporting methodology. Prior years have been restated to reflect funded members.

Kids Off Nauru

Another important campaign was ‘Kids Off Nauru’ which called for the removal of children from the offshore detention camp for refugees in Nauru. We combined the power of our ethically-aligned customer base, social media reach, the advocacy expertise of our Ethics team and a cohort of passionate staff who volunteered to support this issue. When speaking at the rally in Canberra where the petition of 170,000 signatures was handed over, our Head of Ethics Research Dr Stuart Palmer said, “We support Kids Off Nauru because destroying people’s hope is cruel, whether they’re children or adults. It causes them great harm and there’s no good reason for it.”



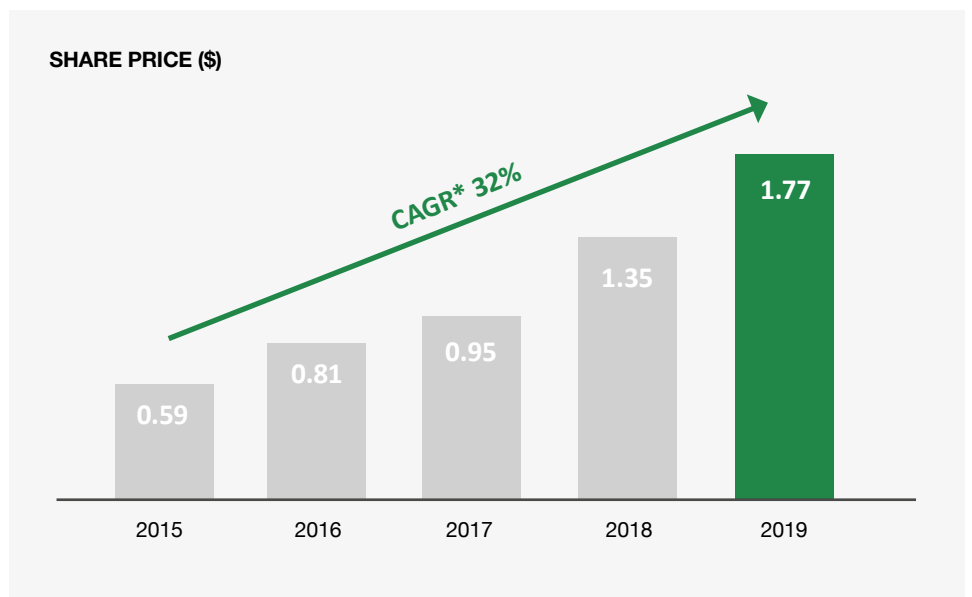


Our shareholders

Due to the continued increase of our share price in FY19, we decided to implement a share split of 100 to one. We did this to ensure our shares remain accessible to retail and smaller investors and to maintain trading volumes. The share split resolution was approved at our 2018 AGM and took effect on 21 December 2018, resulting in a new share price of \$1.63 with 112,093,000 shares on issue (compared to a share price of \$163 before the split with 1,120,930 shares on issue). The share price closed at \$1.77 on 30 June 2019.

Our shareholders continued to enjoy sustained performance with a Total Shareholder Return of 34% for FY19. The Board declared a fully franked final dividend of 3 cents per share, bringing the total dividend for FY19 to 5 cents per share, an increase of 25% on the previous year.

Another milestone for the business was reached in March 2019 when we were included in the All Ordinaries index for the first time.



* Compound annual growth rate



Credentials 2019

Certifier	Certification
B Lab	Certified by B Lab as a B Corp '2019 Best for the World': Governance honoree Certification shows that across our business we meet rigorous standards of social and environmental performance, accountability, employee engagement and transparency.
RIAA	Responsible Investment Association of Australasia: <i>Certified Ethical Investment</i>
United Nations Principles of Responsible Investment (UNPRI)	Strategy & Governance A+ Listed Equity – Incorporation A+ Listed Equity – Active Ownership – A Fixed Income SSA – A Fixed Income – Corporate Financial – A
Signatory to:	CFA Institute Asset Manager Code Insurance in Superannuation Voluntary Code of Practice Women's Empowerment Principles Investor 30% Club Statement of Intent (to achieve 30% of ASX 300 seats held by women by end-2021)
Memberships	Association of Superannuation Funds of Australia Limited (ASFA) The Financial Services Council Responsible Investment Association Australasia (RIAA) Global Reporting Initiative (GRI) United Nations Principles for Responsible Investment (UNPRI) United Nations Environment Program Finance Initiative (UNEP Finance Initiative) The Global Investor Coalition on Climate Change Investor Group on Climate Change (IGCC) Portfolio Decarbonisation Coalition Future Business Council (FBC) Australian Chapter of the 30% Club Investor Group B Corp We are also involved in numerous working groups including those for RIAA and IGCC.



Signatory of:



The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.



Independent Limited Assurance Report to the Directors of Australian Ethical Investment Limited

Conclusion

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the Selected Sustainability Information, which has been prepared by Australian Ethical Investment Limited in accordance with management's reporting criteria for the period 1 July 2018 to 30 June 2019.

Information subject to assurance

The Selected Sustainability Information subject to this limited assurance engagement is restricted to the following quantitative and qualitative information as presented in the Sustainability Report 2019 ("the Report").

Selected Sustainability Information	Included in the following section of the Report
<ul style="list-style-type: none">Compliance with fossil fuel screensApplication of the Ethical Charter to every company in the portfolio	<ul style="list-style-type: none">pages 7, 9, 13 and 19"Ethical investing – the heart of what we do" on page 16

Criteria used as the basis of reporting

The applicable criteria used as the basis of reporting are Management criteria, developed by Australian Ethical Investment Limited ("the criteria") and are included in the Report.

Basis for conclusion

We conducted our work in accordance with Australian Standard on Assurance Engagements ASAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Selected Sustainability Information, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Summary of procedures performed

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries with relevant Australian Ethical Investment Limited personnel to understand the internal controls, governance structure and reporting process of the Selected Sustainability Information;
- reviews of relevant documentation;
- analytical procedures over the Selected Sustainability Information;



- agree, on a sample basis, the Selected Sustainability Information to source documentation;
- re-calculation, on a sample basis, of key calculations;
- evaluating the appropriateness of the criteria with respect to the Selected Sustainability Information;
- reviewed the Sustainability Report in its entirety to ensure it is consistent with our overall knowledge of assurance engagement.

How the Standard defines limited assurance and material misstatement

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the intended users taken on the basis of the Selected Sustainability Information.

Use of this Assurance Report

This report has been prepared for the Directors of Australian Ethical Investment Limited for the purpose of providing an assurance conclusion on the Selected Sustainability Information and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of Australian Ethical Investment Limited, or for any other purpose than that for which it was prepared.

Management's responsibility

Management are responsible for:

- determining that the criteria is appropriate to meet their needs and the needs of intended users;
- preparing and presenting the Selected Sustainability Information in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the Selected Sustainability Information that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Selected Sustainability Information for the period 1 July 2018 to 30 June 2019, and to issue an assurance report that includes our conclusion.

Our independence and quality control

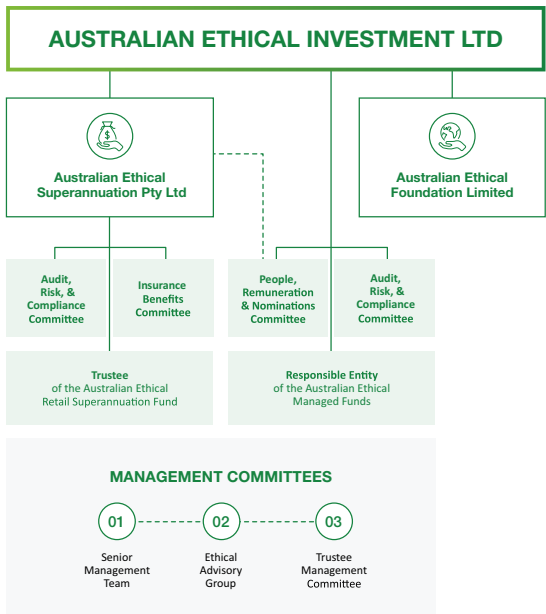
We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control.

KPMG

Sydney

23 October 2019

GRI Content Index

Disclosure	Description	Reference
Organisational Profile		
102-1	Name of the organisation	Front cover
102-2	Activities, brands, products and services	Pages 14, 15 Additional information is available at: australianethical.com.au/#
102-3	Location of headquarters	Sydney, Australia
102-4	Location of operations	Our office is located in Sydney, Australia
102-5	Ownership and legal form	
102-6	Markets served	Page 48
102-7	Scale of the organisation	Pages 46, 48, 49 Annual Report pages 6, 7 and 8 All employees are based at our sole office in Sydney
102-8	Information on employees and other workers	Page 46 All employees are based in Sydney. A small number of activities are performed for the business by consultants, from time to time. This data was prepared by our finance team as part of our annual reporting process.
102-9	Supply Chain	Page 25
102-10	Significant changes to the organisation and its supply chain	Page 6
102-11	Precautionary Principle or approach	Our Ethical Charter is aligned with the Precautionary Principle.
102-12	External initiatives	Pages 5, 9, 10, 11, 12, 15, 20, 24, 31, 32, 36, 38, 41-43 TCFD Report
102-13	Memberships of associations	Page 51

Disclosure	Description	Reference
Strategy		
102-14	Statement from senior decision-maker	Pages 4-6
102-15	Key impacts, risks and opportunities	Page 4-6, 22, 23, 26, 28-30, 36-38
Ethics and Integrity		
102-16	Values, principles, standards and norms of behaviour	Code of Conduct Corporate Governance Statement Principle 3 pages 6-7 Ethical Charter
102-17	Mechanisms for advice and concerns about ethics	<p>Employees are consulted on changes that may impact their work and/or the business. Every two years, an employee representative is elected by employees. In accordance with the formal grievance procedures, employees can discuss any concerns, issues or complaints around their employment, regardless of their nature of severity.</p> <p>The employee representative can choose to discuss these issues with the management team and escalate the issue to the Board if required. No grievances were reporting during the year. All employees are notified of operational changes by either the Managing Director or their direct manager, as soon as is reasonably practicable. Our grievance process is reviewed on an as needs basis.</p> <p>During FY19, external grievance mechanisms available for superannuation complaints were the Superannuation Complaints Tribunal, the Australian Financial Complaints Authority (AFCA) and the Financial Ombudsman Service.</p> <p>The internal compliance reporting tool "Tickit" is used to track, monitor and document issues. External grievance mechanisms are able to be reported through The Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC).</p>
Governance		
102-18	Governance structure	Annual Report pages 24-26
102-19	Delegating authority	Corporate Governance Statement Principle 7, pages 8-10
102-20	Executive level responsibility for economic, environmental and social topics	Page 26 Ethical Investment Policy
102-21	Consulting stakeholders on economic, environmental, and social topics	Pages 5, 10, 15, 34, 35, 38, 39, 41, 42, 43, 48, 49 Our Ethical Influencing
102-22	Composition of the highest governance body and its committees	Annual Report pages 29, 30 Corporate Governance Statement Principle 2 (Recommendation 2.1 and 2.3) pages 3-4
102-23	Chair of the highest governance body	Annual Report page 29 Corporate Governance Statement Principle 2 (Recommendation 2.3) page 4

Disclosure	Description	Reference
102-24	Nominating and selecting the highest governance body	Board Charter Board Renewal Policy Corporate Governance Statement Principle 2 (Recommendation 2.6) page 6
102-25	Conflicts of interest	Conflicts Management Policy FSC Standard 23 Principles of Internal Governance and Stewardship Corporate Governance Statement Principle 3 (Recommendation 3.1) page 6 Group Register of Relevant Interests
102-26	Role of highest governance body in setting purpose, values, and strategy	<p>Australian Ethical conducts an annual strategy review where Board and the management team include all aspects of purpose, values and strategy including sustainability.</p> Board Charter
102-27	Collective knowledge of highest governance body	Corporate Governance Statement Principle 2 (Recommendation 2.2 and 2.6) pages 4-6 <p>Updates on ethical frameworks and ethical reports are also provided by our Head of Ethics Research. Board members have significant professional experience in sustainability topics as described in the Board biographies. These are available in the Annual Report pages 29-30</p>
102-28	Evaluating the highest governance body's performance	Corporate Governance Statement Principle (Recommendation 1.6) page 3
102-29	Identifying and managing economic, environmental and social impacts	Corporate Governance Statement Principle 7 (Recommendation 7.4) pages 9-10
102-30	Effectiveness of risk management processes	<p>Page 26</p> <p>Due diligence is undertaken monthly by the senior management team and Ethical Advisory Group and reported to the Board.</p> Corporate Governance Statement Principle 7 (Recommendation 7.2) page 9
102-31	Review of economic, environmental and social topics	Page 26
102-32	Highest governance body's role in sustainability reporting	The Managing Director and General Counsel approve the material aspects to be reported on and provide final approvals of the sustainability report.
102-33	Communicating critical concerns	The Managing Director has the authority to escalate critical matters to the Board. Board meetings take place four to six times per year. If the concern is related to a compliance issue, the Compliance Manager has a reporting line and obligation to report to the Chair of the Audit Committee, who in turn is a Non-executive Director. The Company Secretary has a reporting line to the Chair of the Board.
102-34	Nature and total number of critical concerns	There were no critical concerns that needed to be communicated to the Board during the reporting year.

Disclosure	Description	Reference
102-35	Remuneration policies	Remuneration Report (as part of the Annual Report) pages 36 to 51
102-36	Process for determining remuneration	Remuneration Report (as part of the Annual Report) pages 36 to 51
102-37	Stakeholders' involvement in remuneration	Remuneration Report (as part of the Annual Report) page 38
102-38	Annual total compensation ratio	Ratio of the annual total compensation for the organisation's highest paid individual to the median annual total compensation for all employees is 3.15:1
102-39	Percentage increase in annual total compensation ratio	The highest paid individual's salary increased by 1% and the median salary increased by 2%
Stakeholder engagement		
102-40	List of stakeholder groups	Pages 10, 26, 38, 42, 44, 48, 50, 51 Our Ethical Influencing
102-41	Collective bargaining agreements	No staff are employed on collective bargaining agreements
102-42	Identifying and selecting stakeholders	Page 10
102-43	Approach to stakeholder engagement	Pages 10, 38, 39, 42, 44, 48, 49, Appendix 1 Our Ethical Influencing
102-44	Key topics and concerns raised	Pages 11, 44, 48 Our Ethical Influencing
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Annual Report (inside front cover)
102-46	Defining the report content and topic Boundaries	<p>The GRI Reporting Principles of Stakeholder Inclusiveness, Sustainability Context, Materiality and Completeness have been incorporated through:</p> <ul style="list-style-type: none"> • Our ongoing stakeholder engagement activities described in this report • The application of the Australian Ethical Charter through all of our investment and operational decisions that shows a critical understanding of the sustainability challenges that the world around us faces • A robust materiality assessment carried out in FY2018 and assessed as still applicable in FY2019 • The range of topics identified as material and supporting information for the reporting year FY2019. <p>The boundary for reporting includes Australian Ethical Investment Pty Ltd and its owned subsidiaries.</p> <p>Inputs into Australian Ethical's investment process are defined and reported as external to the organisation.</p>

Disclosure	Description	Reference
102-47	List of the material topics	Page 11
102-48	Restatements of information	Page 49
102-49	Changes in reporting	There are no changes to the material topics or reporting boundaries from the FY2018 reporting year.
102-50	Reporting period	1 July 2018 to 30 June 2019
102-51	Date of the most recent report	23 October 2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Tom May, General Counsel and Company Secretary: tmay@australianethical.com.au
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI Content Index	The GRI Content Index is set out in this table.
102-56	External assurance	Data relevant to selected material indicators has been assured by KPMG using the ASAE3000 Assurance standard. KPMG has issued an independent limited assurance report. Pages 52 to 53

		Reference	Internal/External Boundary (I/E) and Limitations
Economic Performance 2016			
	Management Approach (103-1; 103-2; 103-3)	Australian Ethical is for-profit business that provides investors with ethical investments that do not compromise on investment performance. At six-month intervals we report our economic performance to the market via an ASX release and documentation according to Corporations Act (2001). The market response to our disclosures is reflected in our share price and therefore our economic performance on behalf of shareholders. The performance of our super investment options are published on our website (net of administration and investment management fees, taxes and other costs) monthly. The performance of our retail and wholesale managed funds are published on our website (net of management fees and gross of tax as if distributions of income have been reinvested at the actual distribution reinvestment price). Our performance is rated against our competitors by independent agencies such as Lonsec and SuperRatings. Annual Report pages 6, 8, 16	I
201-1	Direct economic value generated and distributed	Annual Report pages 6-8, 10, 11	I
201-2	Financial implications and other risks and opportunities due to climate change	Pages 12, 13, 19, 20, 29-32, 36-38 TCFD Report	E (no limitations)
Anti-corruption			
	Management Approach (103-1; 103-2; 103-3)	Australian Ethical's name and ethos means it must set a very high bar for its ethical business practices or risk substantial brand damage. Code of Conduct	
205-3	Confirmed incidents of corruption and actions taken	There were no incidents of corruption concerning Australian Ethical's business, its employees, or business partners, nor any public legal cases regarding corruption brought against Australian Ethical or its employees	I (no limitations)
Supplier Environmental Assessment			
	Management Approach (103-1; 103-2; 103-3)	Pages 16-20, 25 <ul style="list-style-type: none"> 100% of investment agreements and contracts have been screened against the Australian Ethical Charter which excludes investments that: pollute land, air or water; destroy or waste non-recurring resources; or acquire land or commodities primarily for the purpose of speculative gain Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Ethical Charter All new suppliers are assessed for alignment with the ethical charter. Ethical Investment Policy	I (no limitations)
308-1	New suppliers that were screened using environmental criteria	All (100%) of Australian Ethical's material operational suppliers and all investee companies are screened against the Australian Ethical Charter.	I (no limitations)

Reference

Training and Education

Management Approach (103-1; 103-2; 103-3)	<p>Training, education and career development employee training needs at Australian Ethical are determined by a variety of inputs, such as annual performance management or discussions, and manager recommendations. We ensure that the learning and/ or development need is genuine and then define the competency or skill that needs to be improved on. Our human resources manager presents various learning and development options, which include not only formal training, but connecting with industry and various other initiatives. Employees are set annual Key Performance Indicators (KPIs) that reflect critical success factors to Australian Ethical. Regular formal and informal feedback on performance and KPIs, and formal performance and career development reviews take place up to two times per year. All (100%) of Australian Ethical employees are included in the performance management system which includes a focus on career development, strengths building and focus.</p> <p>Employee training, education and career development needs are evaluated through the performance management process, the annual employee engagement survey, and bi-annual materiality assessment process.</p>	I
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404-1	Average hours of training per year per employee	<p>All employees complete 13 modules of compliance training in the first three months of joining. They must then refresh this annually, with additional training required when policies are updated or new policies are introduced. Five hours are spent on average on annual compliance training. In addition, more technical roles are required to complete at least 30 hours of CPD training each year, including for example, RG146 certification.</p>	I (no limitations)
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Human Rights Assessment

Management approach (103-1; 103-2; 103-3)	Pages 16-18, 20, 25, 26, 36-38, 45	I	
412-3	<p>Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening</p>	<p>100% of investment agreement and contracts have been screened against the Australian Ethical Charter which excludes investments that: exploit people through the payment of low wages or the provisions of poor working conditions or that contribute to the inhibition of human rights generally.</p> <p>Australian Ethical will only use external investment services where the provision of those services to Australian Ethical is assessed to be aligned with the Ethical Charter.</p> <p>Ethical Investment Policy</p>	I (no limitations)

		Reference	Internal/External Boundary (I/E) and Limitations
Supplier Social Assessment			
	Management Approach (103-1; 103-2; 103-3)	Pages 16,17, 19, 25	I
414-1	New suppliers that were screened using social criteria	Refer to Disclosure 412-3	I (limitations to be determined)
414-2	Negative social impacts in the supply chain and actions taken	Pages 18, 38 The percentage of companies from our portfolio that we engage with is not available at the time of publishing. Our Ethical Influencing Progress Reports	I and E (limitations to be determined)
Marketing and Labelling			
	Management Approach (103-1; 103-2; 103-3)	Australian Ethical is bound by the requirements contained in the Corporations Act (2001), the Superannuation Industry (Supervision) Act (1993), the Regulatory Guidance produced by the Australian Securities and Investments Committee (ASIC) and the Financial Services Council (FSC) Standards when determining the marketing plans for its products. Legal, Risk and Compliance managers monitor responsible marketing compliance by reviewing all disclosure documents before they are released. The Board approves all new products and associated product disclosure statements prior to their release to the market. Australian Ethical is committed to respecting our clients' right to privacy and protecting our clients' personal information. We are bound by the provisions of the Privacy Act (1988) (Cth) which regulates how we collect, use, disclose and keep personal information secure.	I
417-1	Requirements for product and service information and labelling	All (100%) of Australian Ethical's investment and superannuation fund products are accompanied by a product disclosure statement, and any changes to products are communicated to our clients via our website and when appropriate, in more targeted letter or email campaigns. Continuous Disclosure Policy Privacy Policy	I (no limitations)
417-2	Incidents of non-compliance concerning product and service information and labelling	There were no incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	I (no limitations)
417-3	Incidents of non-compliance concerning marketing communications	There were no incidents of non-compliance concerning marketing communications	I (no limitations)

		Reference	Internal/External Boundary (I/E) and Limitations
Socioeconomic Compliance 2016			
	Management Approach (103-1; 103-2; 103-3)	Corporate Governance Statement Principle 7 (Recommendations 7.1 and 7.2) pages 8, 9	I
419-1		There were no fines for non-compliance with laws and regulations in the social and economic area. Socio-economic compliance is central to our ethos and is managed through the EAG Committee who reports quarterly to Board.	I (no limitations)
Financial Services Sector Disclosures (G4)			
Audit			
	G4-Disclosure on Management Approach	Ethical Investment Policy	I (no limitations)
Product Portfolio			
	G4-Disclosure on Management Approach	Pages 16-19 Ethical Investment Policy	I
FS6	Percentage of the portfolio for business lines by specific region, size and by sector	Annual Report pages 7, 8, 14, 15, 18, 19	I (no limitations)
Active Ownership			
	G4-Disclosure on Management Approach	Pages 18, 20, 22, 23, 25, 36, 38, 39 Australian Ethical pursues opportunities to influence better management by companies of their impacts on the planet, people and animals i.e. to increase positive and reduce negative impacts. This may include influencing through private engagement, voting, public praise or criticism, shareholder resolutions and divestment. Australian Ethical will pursue opportunities to measure and report on the impact of its action to further the aims of the Ethical Charter. This is important as a tool both for increasing impact and for demonstrating impact to Australian Ethical members and other clients and stakeholders. Proxy Voting Policy Proxy Voting Record 2018 Our Ethical Influencing	I
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	Page 39 We do not track the percentage of companies within our portfolio regarding engagement, as our investment portfolio changes throughout the year. Our Ethical Influencing Ethical Investment Policy	I (limitations)

		Reference	Internal/External Boundary (I/E) and Limitations
FS11	Percentage of assets subject to positive and negative environmental or social screening	All (100%) of our investments must meet the Australian Ethical Charter which includes both positive elements (that we expect our investee companies to support) and negative elements (that we expect our investee companies to avoid). Ethical Investment Policy	I (no limitations)
Australian Ethical Specific Material Topics			
Credibility of Investment Team			
	Management Approach (103-1; 103-2; 103-3)	Page 16 The key output of Australian Ethical are managed funds, superannuation and pension investments that are aligned to our ethical charter and then selected by the investment team for their investment potential. Australian Ethical flagship Australian Shares fund and Emerging Companies fund (\$481.5m) focus on micro and small caps stock and are actively managed by the investment team. The investment team works closely with the ethics team to manage the ethical investment process. The remuneration of the investment team is linked to the performance of the portfolio and is governed by the Remuneration Policy (refer to the Remuneration Report within the Annual Report).	I
Values and Culture			
	Management Approach (103-1; 103-2; 103-3)	Pages 44-47	I
Customer Service			
	Management Approach (103-1; 103-2; 103-3)	Pages 48, 49 Customer service performance is evaluated through daily monitoring of call volumes and categories of calls; monthly monitoring of customer service data trends, customer complaints and retention rates of customers. An annual Net Promoter Score (NPS) survey is conducted. Data from all these sources is used to evaluate, and, if necessary, re-evaluate team priorities, and to develop the product and service enhancement roadmap.	I

Appendix 1

How we engage with our key stakeholders

Our key stakeholder groups are identified as those on whom our activities directly impact, and who in turn, can have a significant impact on the way we do business. We constantly engage with our key stakeholders as set out in the table below. These interactions help support our belief that the topics addressed in this report, correctly reflect the sustainability context of our business activities and our impacts on clients, shareholders, employees, and the world around us.

Stakeholders		Touchpoints
Customers	Members	Annual brand research online survey, Net Promoter Score (NPS) survey, digital onboarding process, significant event notices, annual Good Money magazine, half-yearly and annual statements, online member portal, responding to email, social media and phone enquiries, invitation to vote for Community Grants recipients
	Investors	Annual Good Money magazine, annual brand research telephone survey, Net Promoter Score (NPS) survey, half-yearly, annual statements and distribution statements, online portal, responding to email, social media and phone enquiries, significant event notices, invitation to vote for Community Grants recipients
	Advisers	Adviser updates via email, face-to-face engagement at professional development days, site visits, invitation to vote for Community Grants recipients
	Employers	Emailed notices, employer portal, one on one site visits, tailored induction kit for new employees
	Shareholders	Annual and Sustainability Report, dividend notices, Annual General Meeting, ASX notices, shareholder self-serve online portal, invitation to vote for Community Grants recipients
	Investee companies	Proxy voting, meetings with management teams, advocacy engagements
	Community	Engaged multiple times a day with a very active social media community of more than 127,500 followers, also invited social community to vote for Community Grants recipients. Met with community at events such as IQ2, Moral Fairground, 1 Million Women event, the Purpose Conference, B Corp events, RIAA and ASX speaking spots, we also enjoyed an active media presence in FY19.



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